



GENERAL REPORT
on the provincial audit outcomes of **MPUMALANGA**
2008-09



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence



A U D I T O R - G E N E R A L
S O U T H A F R I C A

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Auditing to build public confidence

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"The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence."



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SECTION 1: FOREWORD

It gives me great pleasure to present my 2008-09 general report to the provincial legislature, summarising the results of the audit outcomes of the Mpumalanga Provincial Legislature, provincial departments and provincial public entities for the financial year ended 31 March 2009.

This report highlights the encouraging trend of timely submission and auditing of all provincial departments, public entities and the provincial legislature for the year 2008-09. The report also reflects a significant improvement in financially unqualified audit opinions in 2008-09 to 77% (2007-08: 58%) for departments and 100% (2007-08: 50%) for public entities. This is attributable to the visible leadership commitments in responding to the audit messages. However, there has not been a notable improvement in the audit outcomes for the four years since 2004-05.

The attainment of clean audit reports by all government departments and entities is a milestone I encourage and support the province to concentrate on, while at the same time dealing with the bigger challenges in the Departments of Health, Education and Social Development, especially relating to asset management. I am confident that it is possible to obtain clean audit reports if (i) the chief financial officers observe the basics of financial reporting and related internal control systems, (ii) audit committees and internal audit enhance the identification of key risks and key controls, as well as monitor their management, and (iii) on the basis of monthly financial reports and risk management reports, the leadership is empowered to exercise effective monitoring of results and set the correct tone for the performance of the province.

The warning signals that I highlighted in my audit reports continue to be obstacles in the attainment of clean audits. These were found in the areas of human resource management, information systems, non-compliance with laws and regulations, and material misstatements only rectified at the time of the audit. In this regard, it is important to stress that the role of the chief financial officers, audit committees and internal auditors as well as the leadership as described above, remains relevant as a solution to the elimination of these signals that could result in a regression of audit outcomes if not adequately addressed.

With the exception of a few departments and public entities, this report further highlights areas where the service delivery information included in the annual reports of most departments and public entities was not credible or accurate.

Through my continued commitment to simpler, clearer and relevant reporting as well as the visibility of my audit teams, I will support and guide the executive and legislature through the various portfolio committees, including the Standing Committee on Public Accounts, to work towards achieving clean audit opinions.

In conclusion, I wish to thank the audit teams from my office and the audit firms that assisted in Mpumalanga for their diligent efforts towards fulfilling my constitutional mandate and the manner in which they continue to strengthen the cooperation with the leadership of the province. Together we will continue to make every effort to collaborate in order to contribute towards strengthening our country's democracy.

Auditor-General

Auditor-General
Pretoria
November 2009



SECTION 2: EXECUTIVE SUMMARY

• **Audit outcomes for 2008-09**

The Mpumalanga Provincial Government comprises the provincial legislature, 13 provincial departments and six provincial public entities. The audits of all these entities for the year ended 31 March 2009 were completed and an analysis of their audit outcomes is included in this report.

Provincial legislature's audit outcome

The Mpumalanga Legislature was financially unqualified (with other matters) for both the current and previous financial years. These other matters reported related to areas of internal control and governance practices.

Departments' audit outcomes

Of the 13 departments analysed:

- Three were qualified, namely Social Development; Health; and Education.
- Ten were financially unqualified (with other matters), namely Agriculture and Land Administration; Housing; Local Government; Economic Planning and Development; Finance; Public Works; Roads and Transport; Community Safety, Security and Liaison; Culture, Sport and Recreation; and the Office of the Premier.

The Department of Local Government and Housing has split into two departments, namely the Department of Housing and the Department of Local Government, since the previous financial year.

In comparison with the previous financial year, there was therefore one new department, two departments that registered improved audit outcomes, none that regressed and 10 that registered the same audit outcomes. The Department of Local Government and the Department of Economic Planning and Development both improved from qualified to financially unqualified (with other matters).

Departments can ascribe improved or sustained satisfactory audit outcomes to increased leadership involvement and the implementation of action plans.

The three departments that have remained qualified since the previous financial year can ascribe this to not having addressed the root causes of internal control deficiencies; in particular, a lack of effective leadership monitoring and supervision, and inadequate action plans to address the asset qualifications. These departments are the Departments of Social Development; Health; and Education.

Public entities' audit outcomes

All six public entities analysed were financially unqualified (with other matters). This is an improvement, as three public entities were qualified for the year ended 31 March 2008, namely the Mpumalanga Economic Growth Agency; the Mpumalanga Regional Training Trust; and the Mpumalanga Tourism and Parks Agency.

This improvement in audit outcomes can be ascribed to the public entities' quality and timeliness of reporting, strength of governance arrangements, and effective oversight by leadership.



- **Key systemic issues**

Audit outcomes can be – and are – influenced by a number of role players in addition to the management of individual entities. The commitments and contributions of key role players, particularly with regard to key systemic issues, impact on financial management and accounting.

Initiatives of the executive

The majority of provincial departments and public entities still did not implement visible and coordinated action plans. The implementation and monitoring of relevant and coordinated action plans are critical to address audit recommendations and resolutions of the Provincial Public Accounts Committee (PPAC).

The executive confirmed the following commitments during the meeting between the Auditor-General (AG) and the provincial legislature on 21 October 2009:

- To ensure the design of adequate and credible action plans that will address all significant findings from the audit and submission thereof to the Auditor-General of South Africa (AGSA).
- To ensure the implementation and monitoring of these action plans at the departments.
- To employ a chief financial officer at the Department of Education before December 2009.
- To appoint a team at the Department of Education that will partner with the provincial Department of Public Works, working towards reconciling and transferring capital assets to the provincial Department of Public Works.
- To draw up a project plan to turn around the situation regarding capital assets at the Department of Health.
- To be committed towards the achievement of sound financial management, governance and increased oversight.
- To emphasise the roles to be played by the executive, accounting officers and chief financial officers.
- The MEC for Finance to monitor the creation of adequate action plans and continuously track the implementation thereof.
- The provincial Exco to include the monitoring of action plans as a standing agenda item and invite the AGSA to their meetings to discuss specific issues.

Initiatives of the Provincial Treasury

The Provincial Treasury assisted departments in preparing for the audit process through various initiatives, including providing training and additional guidance, issuing circulars, reviewing audit files and monitoring reports submitted.

The Provincial Treasury furthermore developed a strategy to address previous issues raised by the AG in order to prevent similar matters from being reported in the current and future financial years.

Accounting reforms

The Provincial Treasury issued a circular to all accounting officers regarding the transfer of immovable assets in terms of the Government Immoveable Asset Management Act, 2007 (Act No. 19 of 2007) (GIAMA). The National Treasury confirmed that disclosure should be made in the annual financial statements of the affected departments in terms of the circular. Therefore, these departments disclosed in their annual financial statements that they had recognised certain immovable assets that might belong to the provincial Department of Public Works, due to the uncertainty regarding the legal title of the assets.



- **Audit qualification areas and root causes**

The annual financial statement areas relating to capital assets (100%) and presentation and disclosure (67%) were the two areas where the number of qualifications was significant within departments. Revenue (33%) and expenditure (33%) were the two main areas of qualification in the statement of financial performance.

These matters could be resolved if the leadership drives them more effectively as well as with the appropriate levels of oversight through effective and functioning governance structures, for example, audit committees and internal audit.

- **Warning signals requiring attention**

Emphasis of matters

Regulatory audits emphasised the following matters that did not directly impact on the audit opinion, but that are nevertheless important for the users' understanding of the financial statements:

Unauthorised expenditure incurred

The financial statements of five departments reflected unauthorised expenditure, in total amounting to R357 453 000.

Fruitless and wasteful expenditure incurred

Instances were disclosed of fruitless and wasteful expenditure incurred, amounting to R898 000 (2008: R51 000) in the departments' financial statements (three departments) and R2 008 687 (2008: R0) in the public entities' financial statements (one public entity).

Irregular expenditure incurred

Irregular expenditure of R468 800 000 (2008: R75 575 000) and R1 305 000 (2008: R0) was incurred and disclosed in nine departments' and one public entity's financial statements, respectively. The irregular expenditure mainly related to overspending of the budget allocation for employee costs at departments and proper procurement procedures not having been followed.

Material underspending of the budget

The provincial legislature and the following six departments materially underspent their budgets or government grants and transfer payments:

- Agriculture and Land Administration
- Housing
- Economic Development and Planning
- Education
- Finance
- Health

The impact of this underspending was that set objectives were not achieved.

Other matters

Regulatory audits further disclosed other matters that did not directly impact on the audit opinion. The most significant matters are listed below:

Non-compliance with applicable legislation

Most instances of material non-compliance with relevant legislation related to the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and Treasury Regulations. Non-compliance with legislation was reported at the provincial legislature, 10 (77%) departments and three (50%) public entities.

Misstatements in financial statements corrected as a result of the audit

The provincial legislature, 11 departments and all six public entities submitted financial statements that contained material misstatements.

• Results of audits of information systems

The audit outcomes of information system audits and the key findings from user account management reviews conducted in the Mpumalanga Province are included under section 7 of this report.

• Significant findings from audits of human resource management and compensation of employees

The regularity audits of departments included an assessment of departments' compliance with the legislation that supports effective human resource management and controls over the compensation of employees. In addition to the findings from the audits, the statistics and information published in the annual reports of the departments, as required in terms of chapter 1, part III, J3 of the Public Service Regulations, were also analysed. These findings are presented in section 8 of this report and relate to the following areas:

- Human resource planning and work organisation
- Management of vacancies
- Appointment processes
- Prolonged acting by officials in higher posts
- Use of consultants
- Suspensions
- Leave administration
- Budgetary control
- Management of overtime
- Payroll certification
- Service terminations

• Report on performance information

The provincial legislature, all departments and all public entities submitted their performance information on time for auditing as required. The incidences of key findings resulting from the audit of performance information are presented in section 9 of this report and relate to the following reporting areas:



- Compliance with regulatory requirements (46% of departments and 67% of public entities)
- Usefulness of reported information (the provincial legislature, 38% of departments and 67% of public entities)
- Reliability of reported performance information (54% of departments and 17% of public entities)

The Department of Finance, the Department of Roads and Transport, the Mpumalanga Gambling Board and the Mpumalanga Tourism and Parks Agency were the only provincial departments and public entities that were exemplary in the management of service delivery processes, and as such had no shortcomings in any of the above categories.

The leadership of the province should implement processes to ensure greater credibility of performance information, as it deals with the service delivery achievements of the provincial government. Furthermore, I will in future be expressing audit opinions on the performance information disclosed by departments and public entities in their annual reports.

• **Consolidated financial statements**

In terms of section 19 of the PFMA, provincial treasuries are required to prepare consolidated financial statements in accordance with generally recognised accounting practice for each financial year in respect of departments, and/or constitutional entities, public entities and other entities. The AG issues separate audit reports for consolidated departments and entities. Agreed-upon procedures are performed on the provincial consolidated financial statements.

The audits of the consolidated financial statements for the previous years have been finalised. The consolidated financial statements for the year ended 31 March 2009 were received and the audit report was issued on 30 September 2009 in accordance with the legislative requirements.

• **Status of tabling of annual reports**

In accordance with section 65 of the PFMA, the executive authority responsible for a department must table in the provincial legislature the annual report and financial statements as well as the audit report on those statements, within one month of receipt of the audit report. The provincial legislature and all departments' and public entities' annual reports for the current and previous financial years have been tabled in the provincial legislature.

• **Status report on performance audits, investigations and special audits**

Performance audits regarding the investment in infrastructure are being conducted at the Departments of Education and Health, and the reports will be tabled in the provincial legislature by the end of March 2010. Furthermore, a report on a transversal performance audit regarding entities that are connected with government employees doing business with departments was tabled in May 2009.

No investigations or special audits are currently being conducted by the AGSA at the Mpumalanga Provincial Government.

SECTION 3: AUDIT OUTCOMES FOR 2008-09

3.1 Status of completion of audits for the year ended 31 March 2009

The Mpumalanga Provincial Government comprises the provincial legislature, 13 departments, six provincial public entities and no provincial other entities. This report presents the 2008-09 audit outcomes of the provincial legislature, these 13 departments and six provincial public entities.

Table 1: Status of completion of the 2008-09 audits

Entity type	Total	Audits completed	Audits outstanding	% of completion
Provincial legislature	1	1	0	100%
Provincial departments	13	13	0	100%
Provincial public entities	6	6	0	100%
Total	20	20	0	100%

Tables 2(a) to (c) below present the 2008-09 audit outcomes of the Mpumalanga Province. Details of qualification areas relating to the statement of financial position and the statement of financial performance are provided under section 5 of this report as well as in annexure 1a, while a list of entities that registered improved or deteriorated audit outcomes is included in annexure 2.

3.2 Audit outcome of the provincial legislature

Table 2(a): Audit opinions on the provincial legislature for the current and previous financial years

Type of audit opinion	2008-09		2007-08	
	Number	%	Number	%
Disclaimer	0	0%	0	0%
Adverse	0	0%	0	0%
Qualified	0	0%	0	0%
Financially unqualified (with other matters)	1	100%	1	100%
Financially unqualified (with no other matters)	0	0%	0	0%
Total reported on	1	100%	1	100%

No change in audit outcome

The audit outcome of the provincial legislature remained unchanged from the year ended March 2008. The Mpumalanga Legislature remained financially unqualified (with other matters). The provincial legislature can ascribe the sustained satisfactory audit outcome to continued leadership involvement in financial management.

3.3 Audit outcomes of provincial departments

Table 2(b): Audit opinions on 13 provincial departments for the current and previous financial years

Type of audit opinion	2008-09		2007-08	
	Number	%	Number	%
Disclaimer	0	0%	0	0%
Adverse	0	0%	0	0%
Qualified	3	23%	5	42%
Financially unqualified (with other matters)	10	177%	7	58%
Financially unqualified (with no other matters)	0	0%	0	0%
Total reported on	13	100%	12	100%

All 13 departments are reported on, of which one is a new department, two registered improved audit outcomes, none regressed, and 10 registered the same audit outcomes as for the year ended 31 March 2008. Details are as follows:

- *Improvements* (two): The Department of Local Government and the Department of Economic Planning and Development both improved from qualified to financially unqualified (with other matters).
- *New* (one): The Department of Housing (previously part of the Department of Housing and Local Government) received a financially unqualified (with other matters) opinion.
- *Unchanged* (10): The audit outcomes of 10 departments remained unchanged from the year ended 31 March 2008. Seven were financially unqualified with other matters: the Departments of Agriculture and Land Administration; Culture, Sport and Recreation; Finance; Public Works; Roads and Transport; Community Safety, Security and Liaison; and the Office of the Premier, while three were qualified: the Departments of Education; Social Development; and Health.
- Departments can ascribe improved or sustained satisfactory audit outcomes to increased leadership involvement and the implementation and monitoring of action plans.
- The Departments of Education, Social Development and Health who failed to register improved audit outcomes can ascribe such failure to not having addressed the root causes of internal control



deficiencies. These root causes are analysed under section 5 of this report for all entities whose annual financial statements were qualified.

3.4 Audit outcomes of provincial public entities

Table 2(c): Audit opinions on six provincial public entities for the current and previous financial years

Type of audit opinion	2008-09		2007-08	
	Number	%	Number	%
Disclaimer	0	0%	0	0%
Adverse	0	0%	0	0%
Qualified	0	0%	3	50%
Financially unqualified (with other matters)	6	100%	2	33%
Financially unqualified (with no other matters)	0	0%	1	17%
Total reported on	6	100%	6	100%

All six public entities are reported on, of which three registered improved audit outcomes, one regressed, and two registered the same audit outcomes as for the year ended 31 March 2008. Details are as follows:

- *Improvements (three)*: The Mpumalanga Economic Growth Agency, the Mpumalanga Regional Training Trust and the Mpumalanga Tourism and Parks Agency all improved from qualified to financially unqualified (with other matters).
- *Regressions (one)*: One provincial public entity, namely the Mpumalanga Gambling Board, regressed from financially unqualified (with no other matters) to financially unqualified (with other matters). This regression was due to the lack of effective internal audit and review of the financial statements for compliance with the accounting framework.
- *Unchanged (two)*: The audit outcomes of two provincial public entities remained unchanged from the year ended 31 March 2008, namely the Mpumalanga Agricultural Development Corporation and the Mpumalanga Housing Finance Corporation (financially unqualified with other matters).
- Provincial public entities can ascribe improved or sustained satisfactory audit outcomes to increased leadership involvement and the appointment of skilled consultants to address financial issues.

3.5 Five-year analysis of audit outcomes

Table 2(d) below presents a comparison of the audit outcomes of the Mpumalanga Province for the 2008-09 and 2004-05 years.

Table 2(d): Comparison of the 2008-09 and 2004-05 audit outcomes

Type of audit opinion	Legislature		Departments		Entities	
	2008-09	2004-05	2008-09	2004-05	2008-09	2004-05
Disclaimer	0	0	0	1	0	0
Adverse	0	0	0	0	0	0
Qualified	0	0	3	1	0	0
Financially unqualified (with other matters)	1	1	10	9	6	0
Financially unqualified (with no other matters)	0	0	0	0	0	0
Total reported on	1	1	13	11	6	0

Overall there were no significant improvements from 2004-05 to 2008-09. There could have been a display of greater effective leadership involvement, particularly in the implementation and monitoring of action plans to address the issues reported.

The audit outcomes of the provincial legislature have remained unchanged since the 2004-05 financial year as financially unqualified (with other matters), due to leadership involvement in financial management.

Compared to five years ago, the following changes have occurred in the audit outcomes of the provincial departments:

- *Improvements (two):*
 - Education: From disclaimer to qualified, due to a more established document retention system. Although this has gradually improved, the filing system still requires enhancement.
 - Economic Development: From qualified to financially unqualified (with other matters), due to improved leadership involvement, supervision and monitoring.
- *Regression (one):*
 - Health and Social Services: From financially unqualified (with other matters) to qualified (the department split and now both Health and Social Development are qualified), due to the increased disclosures in the financial statements required by the National Treasury, especially regarding capital assets.
- *Unchanged (eight):* The following departments were unchanged (financially unqualified (with other matters)), mainly due to leadership involvement in financial management:
 - Office of the Premier
 - Agriculture and Land Administration



- Community Safety, Security and Liaison
 - Local Government and Housing
 - Culture, Sport and Recreation
 - Finance
 - Public Works
 - Roads and Transport
- New (two):
 - The Department of Health and Social Services split into the Department of Health and the Department of Social Development (both qualified in 2008-09).
 - The Department of Local Government and Housing split into the Department of Local Government and the Department of Housing (both financially unqualified (with other matters)) in 2008-09.

No comparatives are given for the public entities, as they were not audited by the AGSA in 2004-05 in terms of section 4(3) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

Annexure 1c sets out the audit outcomes of the provincial legislature, departments and public entities for all the financial years from 2004-05 to 2008-09.

SECTION 4: KEY SYSTEMIC ISSUES

Audit outcomes can be – and are – influenced by a number of role players in addition to the management of individual entities. This section of the report gives an overview of the commitments and contributions of key role players, particularly with regard to key systemic issues impacting on financial management and accounting.

4.1 Initiatives to improve audit outcomes

The majority of provincial government entities still did not implement visible and coordinated action plans, as reported in the previous year's provincial general report. The three departments with qualified audit opinions all drew up action plans based on the audit recommendations, but these action plans were not fully implemented.

The implementation and monitoring of relevant and coordinated action plans are critical to address audit recommendations and PPAC resolutions.

The executive made the following commitments during the meeting between the AG and the provincial legislature on 21 October 2009:

- To ensure the design of adequate and credible action plans that will address all significant findings from the audit and submission thereof to the AGSA.
- To ensure the implementation and monitoring of these action plans at the departments.
- To employ a chief financial officer at the Department of Education before December 2009.
- To appoint a team at the Department of Education that will partner with the provincial Department of Public Works, working towards reconciling and transferring capital assets to the provincial Department of Public Works.
- To draw up a project plan to turn around the situation regarding capital assets at the Department of Health.
- To be committed towards the achievement of sound financial management, governance and increased oversight.
- To emphasise the roles to be played by the executive, accounting officers and chief financial officers.
- The MEC for Finance to monitor the creation of adequate action plans and continuously track the implementation thereof.
- The provincial Exco to include the monitoring of action plans as a standing agenda item and invite the AGSA to their meetings to discuss specific issues.

4.2 Impact of initiatives of other role players

The Provincial Treasury assisted departments in preparing for the audit process through the following initiatives:

- Issued circulars on what departments should prepare for the purposes of year-end closure and the audit process.
- Provided training to departments on the preparation of annual financial statements.
- Provided guidance on the application of the guide for the preparation of annual reports.
- Guided departments on the information to be compiled for the preparation of the financial statements.
- Performed a review of audit files submitted as supporting documentation to the financial statements.



- Engaged departments to clear their control and suspense accounts in order to achieve an accurate classification of transactions.
- Monitored reports submitted in terms of section 41 of the PFMA.

The Provincial Treasury furthermore developed a strategy to address previous issues raised by the AG in order to prevent similar matters from being reported in the current and future financial years.

4.3 Accounting reforms

The Provincial Treasury issued a circular to all accounting officers regarding the transfer of immovable assets in terms of the GIAMA. The National Treasury confirmed that disclosure should be made in the annual financial statements of the affected departments in terms of the circular. Therefore, these departments disclosed in their annual financial statements that they had recognised certain immovable assets that might belong to the provincial Department of Public Works, due to the uncertainty regarding the legal title of the assets.

SECTION 5: ANALYSIS OF AUDIT QUALIFICATION AREAS AND ROOT CAUSES

This section of the report provides details on specific areas of the statement of financial performance and/or the statement of financial position of entities that received qualified audit opinions. Details are provided under separate headings for the provincial legislature, provincial departments and provincial public entities. An analysis is lastly provided of the root causes of qualification findings. Annexure 1(a) provides further details regarding the audit outcomes and qualification findings of each entity.

5.1 Provincial legislature

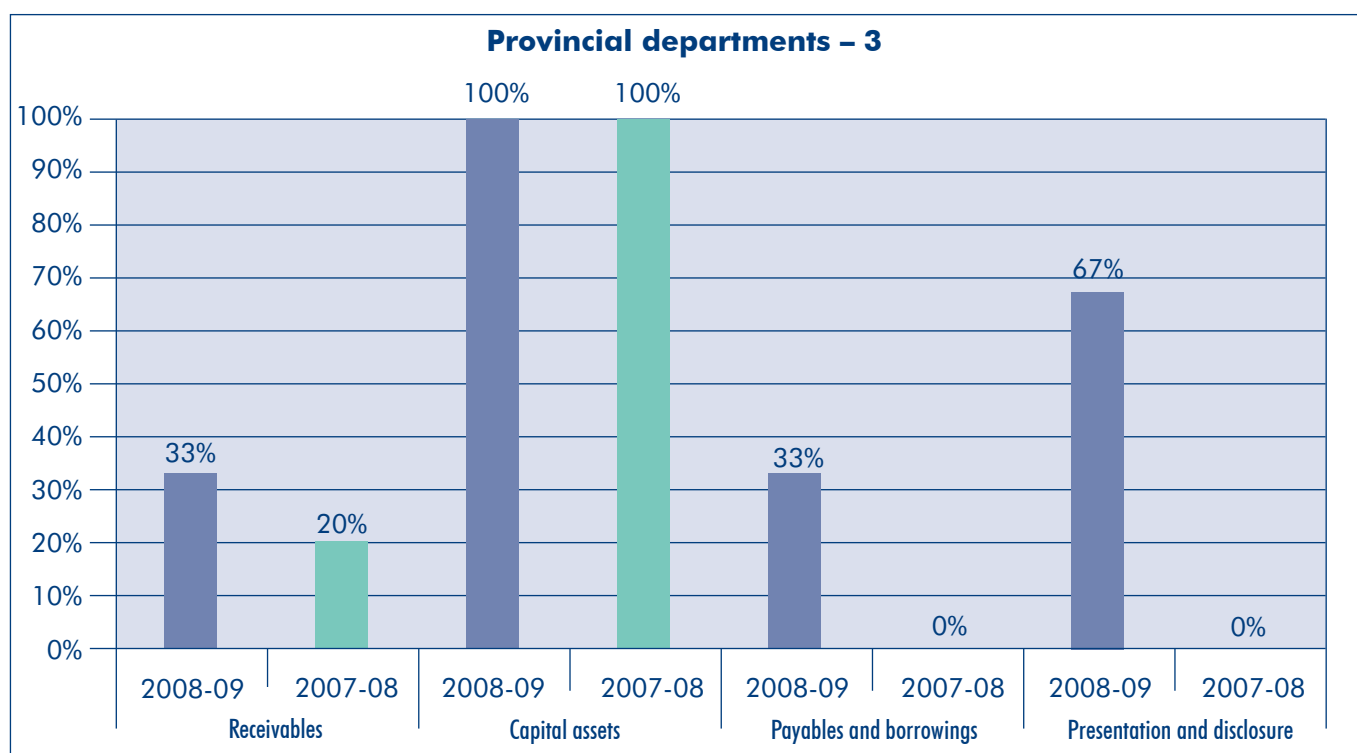
As reported in section 3.2 of this report, the Mpumalanga Legislature was financially unqualified (with other matters) for the year ended March 2009.

5.2 Provincial departments

5.2.1 Areas qualified relating to statements of financial position: provincial departments

Figure 1(a) below provides a breakdown of those statement of financial position findings that gave rise to qualified audit opinions at provincial departments. The graph depicts the number of departments that had qualified audit opinions in key areas of their statements of financial position. Details of the nature of qualifications are provided for those qualification areas where these percentages exceeded 50%.

Figure 1(a): Areas qualified in the statement of financial position (three departments qualified)



Analysis of areas qualified

Capital assets

The highest occurrence of audit qualifications related to capital assets. The main drivers of these audit qualifications were the lack of information to verify the valuation of movable and immovable tangible capital assets, the lack of unique asset identification numbers, incomplete or insufficient detail in asset registers to physically verify assets, and untraceable assets.

A disclosure note was included in the financial statements of those departments that have recognised certain immovable assets that might belong to the provincial Department of Public Works, due to the uncertainty regarding the legal title of the assets, according to an instruction from the National Treasury. This disclosure was emphasised in the audit reports of the relevant departments. The National Treasury indicated that these immovable assets will be transferred to the legal owner once the verification of legal title and the GIAMA process has been finalised.

In certain departments, staff were appointed in acting positions for prolonged periods and critical vacancies existed. Departments waited to year-end to verify assets and did not perform adequate verifications throughout the year. The action plans drawn up were also inadequate to address the weaknesses in asset management.

These are recurring matters that require a decisive approach from leadership to drive the resolution thereof:

- Departments should focus on addressing the shortcomings regarding the identification, recording and valuation of assets.
- Asset management should be done effectively throughout the year to ensure accurate and reliable information at year-end.
- The availability of leadership and adequate oversight will result in better outcomes.

Presentation and disclosure

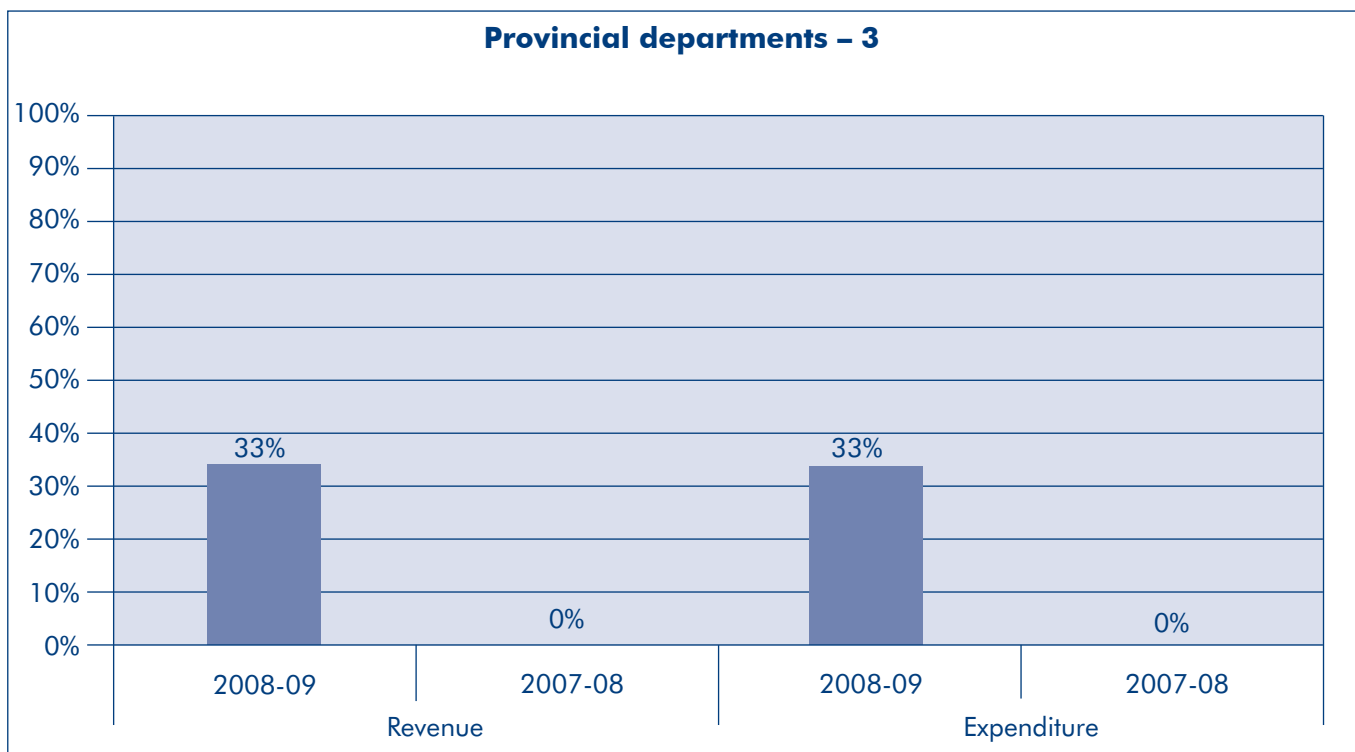
Sufficient appropriate evidence was not obtained as to the accuracy and completeness of commitments and lease commitments as disclosed in the financial statements of two departments (Departments of Health and Education).

In order to address these weaknesses, financial statements should be prepared monthly in the required format. The availability of leadership and adequate oversight will also result in better outcomes.

5.2.2 Areas qualified relating to statements of financial performance: provincial departments

Figure 1(b) below provides a breakdown of those statement of financial performance findings that gave rise to qualified audit opinions at provincial departments. It provides an indication of the percentage of the departments that were qualified per statement of financial performance area.

Figure 1(b): Areas qualified in the statement of financial performance (three departments qualified)



Analysis of areas qualified

Revenue

Sufficient appropriate audit evidence could not be obtained as to the completeness and accuracy of the accounting records beyond the actual receipts recorded, and therefore departmental revenue as disclosed in the financial statements of the Department of Health.

The main driver of this qualification was the lack of a system of internal control over revenue from patient fees, rent for official accommodation, sale of various items, and medical reports requested.

Leadership involvement and adequate oversight should ensure the implementation of appropriate systems of internal control regarding departmental revenue and receivables, particularly at the three hospitals where information on revenue could not be accessed.

Expenditure

Sufficient appropriate audit evidence could not be obtained concerning the occurrence and accuracy of goods and services at the Department of Education.

The main cause for this qualification was the lack of supporting documentation for expenditure due to inadequate filing systems at the department.

The department should improve its filing system and it should be monitored by management on a regular basis in order to ensure that all payment vouchers are accounted for.

5.2.3 Provincial departments: analysis of root causes of qualifications

Department of Health

The Department of Health was financially qualified for the 2008-09 financial year. The qualifications related to the following areas of concern:

- Capital assets
- Receivables
- Revenue
- Presentation and disclosure

The root causes for the situation at the department are as follows:

- Lack of effective leadership and supervision to monitor the financial management and accounting functions.
- Action plans drawn up were not adequate to turn around the capital asset situation.
- Inadequate implementation and lack of continuous monitoring of action plans by leadership to address asset management weaknesses in the department.
- Lack of expertise in asset management unit.
- Inadequate training and supervision of temporary clerks appointed for asset management.
- Lack of regular reconciliations and interim reporting, which would have identified errors in systems generating reports.

Department of Education

The Department of Education was financially qualified for the 2008-09 financial year. The qualifications related to the following areas of concern:

- Capital assets
- Payables
- Expenditure
- Presentation and disclosure

The root causes for the situation at the department are as follows:

- Lack of effective leadership and supervision to monitor the financial management and accounting functions, as key financial officials of the department were suspended.
- Inadequate implementation and lack of continuous monitoring of action plans by leadership to address asset management weaknesses in the department.
- Lack of expertise in asset management unit.
- Lack of regular reconciliations and interim reporting, which would have identified errors in systems generating reports.

Department of Social Development

The Department of Social Development was financially qualified for the 2008-09 financial year. The qualification related to capital assets.

The root causes for the capital asset qualification are as follows:



- Action plans drawn up were not adequate to turn around the capital asset situation.
- Inadequate implementation and lack of continuous monitoring of action plans by leadership to address asset management weaknesses in the department.
- Lack of expertise in asset management unit.

5.3 Provincial public entities

As reported in section 3.4 of this report, all provincial public entities were financially unqualified (with other matters) for the year ended March 2009.

SECTION 6: WARNING SIGNALS REQUIRING ATTENTION

Emphasis of matters

Regulatory audits emphasised matters that do not directly impact on the audit opinion, but that are nevertheless important for the reader of the financial statements to take note of. These matters are presented in this report firstly for the provincial legislature, then for provincial departments and finally for provincial public entities, under the following headings, where applicable:

- Financial sustainability of entities/programmes
- Unauthorised expenditure incurred
- Fruitless and wasteful expenditure incurred
- Irregular expenditure incurred
- Material underspending of budget
- Material losses incurred

Other matters

Regulatory audits further disclosed other matters that do not directly impact on the audit opinion. These matters are presented in this report firstly for the provincial legislature, then for provincial departments and finally for provincial public entities, under the following headings, where applicable:

- Non-compliance with applicable legislation
- Misstatements in financial statements corrected as a result of the audit

Annexure 1b provides further details on these matters reported for each entity.

6.1 Provincial legislature

6.1.1 Emphasis of matters: provincial legislature

6.1.1.1 Material underspending of budget

The provincial legislature materially underspent its budget. The impact of this underspending was that set objectives were not achieved.

6.1.2 Other matters: provincial legislature

The incidence of some of the other matters disclosed by the regulatory audit is included in the paragraphs below.

6.1.2.1 Non-compliance with applicable legislation

The only instance of material non-compliance with relevant legislation by the provincial legislature related to the PFMA and Treasury Regulations. It was reported that payments were not always made within 30 days from receipt of an invoice, as required by section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3.

6.1.2.2 Misstatements in financial statements corrected as a result of the audit

The provincial legislature required material corrections to be made to its financial statements submitted for



audit purposes. This was due to errors, omissions and inconsistencies identified by the auditors that would have resulted in qualifications had the matters not been corrected. These material corrections could have been detected by the legislature, had the internal controls pertaining to financial reporting processes been effective and the financial reporting activities and deliverables been supervised and reviewed diligently. The material misstatements identified and corrected related to presentation and disclosure, and not to misstatements in the financial statements. Deficiencies in the financial reporting processes that resulted in material corrections to the financial statements can primarily be attributed to the following:

- Attitude of management to submit financial statements on time without the necessary due diligence and to rely on the auditors to indicate the necessary corrections to be made.
- Insufficient understanding of the prescribed accounting framework.
- Lack of appropriate systems to generate financial information regarding disclosure notes and the fact that such information was only produced at year-end.
- The accounting officer did not exercise oversight responsibility over financial reporting and internal control.

In order to address the prevalence of material misstatements in financial statements that had to be corrected during the audit period, leadership of the provincial legislature need to:

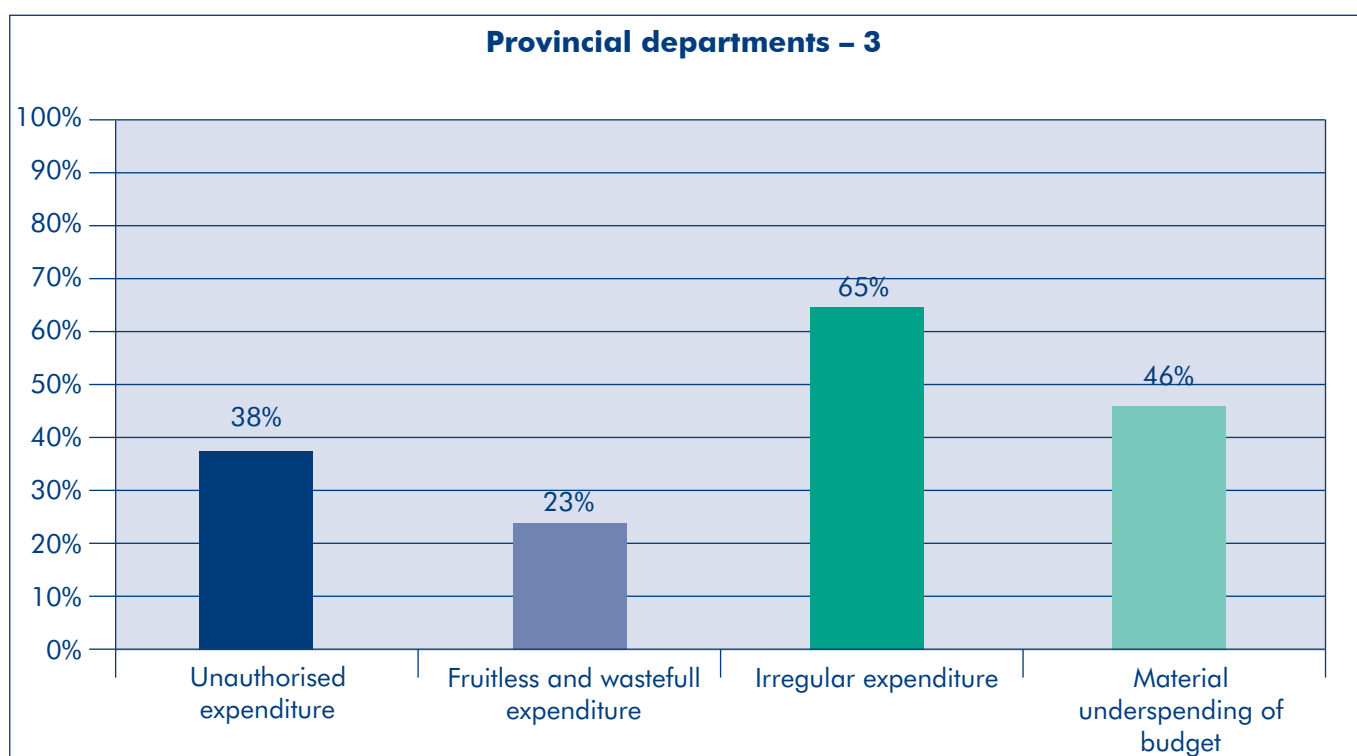
- ensure commitment of the chief financial officer and re-emphasise his role in the preparation of regular management accounts, particularly relating to issues of disclosure associated with the ongoing transition to accrual accounting
- subject the financial statements to a quality review before they are submitted for auditing in order to resolve contentious accounting issues at the earliest opportunity, while internal audit and the audit committee should play a crucial role in the review process of the financial statements
- prepare, review and submit monthly financial statements
- work closely with the National Treasury and the Provincial Treasury to improve financial management and controls in order to produce quality financial statements that comply with the relevant standards.

6.2 Provincial departments

6.2.1 Emphasis of matters: provincial departments

The incidence of some of the matters emphasised by regulatory audits is depicted in figure 2(a) below. Details of these matters are provided in the paragraphs below.

Figure 2(a): Incidence of emphasis of matters: provincial departments



6.2.1.1 Unauthorised expenditure incurred

The financial statements of five departments reflected unauthorised expenditure. The total unauthorised expenditure for the year (for all departments, whether qualified or financially unqualified (with other matters)) amounted to R357 453 000 (2008: R0) and was incurred as follows:

- Agriculture and Land Administration – R9 204 000
- Culture, Sport and Recreation – R12 378 000
- Education – R321 964 000
- Health – R5 300 000
- Local Government – R8 607 000

Unauthorised expenditure was mainly incurred in the following broad expenditure category:

- Compensation of employees

Furthermore, the following departments would have incurred unauthorised expenditure if the expenditure had been paid in a timely manner, in that payments would have exceeded the voted funds to be surrendered or the surplus on the statement of financial performance:

- Department of Education – R265 461 000
- Department of Health – R77 969 000

6.2.1.2 Fruitless and wasteful expenditure incurred

Instances of fruitless and wasteful expenditure incurred amounting to R898 000 for the year (2008: R51 000) were disclosed in the following departments' financial statements and therefore did not cause a qualified audit opinion:

- Agriculture and Land Administration – R208 000
- Culture, Sport and Recreation – R129 000
- Social Development – R561 000

This expenditure included:

- value-added tax (VAT) payments made to non-VAT vendors
- payments made for services not rendered.

6.2.1.3 Irregular expenditure incurred

Irregular expenditure incurred by the provincial departments amounted to R468 800 000 for the year (2008: R75 575 000). This irregular expenditure was disclosed in the departments' financial statements and therefore did not cause a qualified audit opinion. Identified instances of irregular expenditure incurred mainly related to the overspending of the budget allocation for employee costs and proper procurement procedures not having been followed.

- Agriculture and Land Administration – R12 636 000
- Culture, Sport and Recreation – R5 044 000
- Local Government – R2 153 000
- Social Development – R5 797 000
- Education – R414 005 000
- Health – R2 178 000
- Office of the Premier – R1 474 000
- Public Works – R9 919 000
- Roads and Transport – R15 596 000

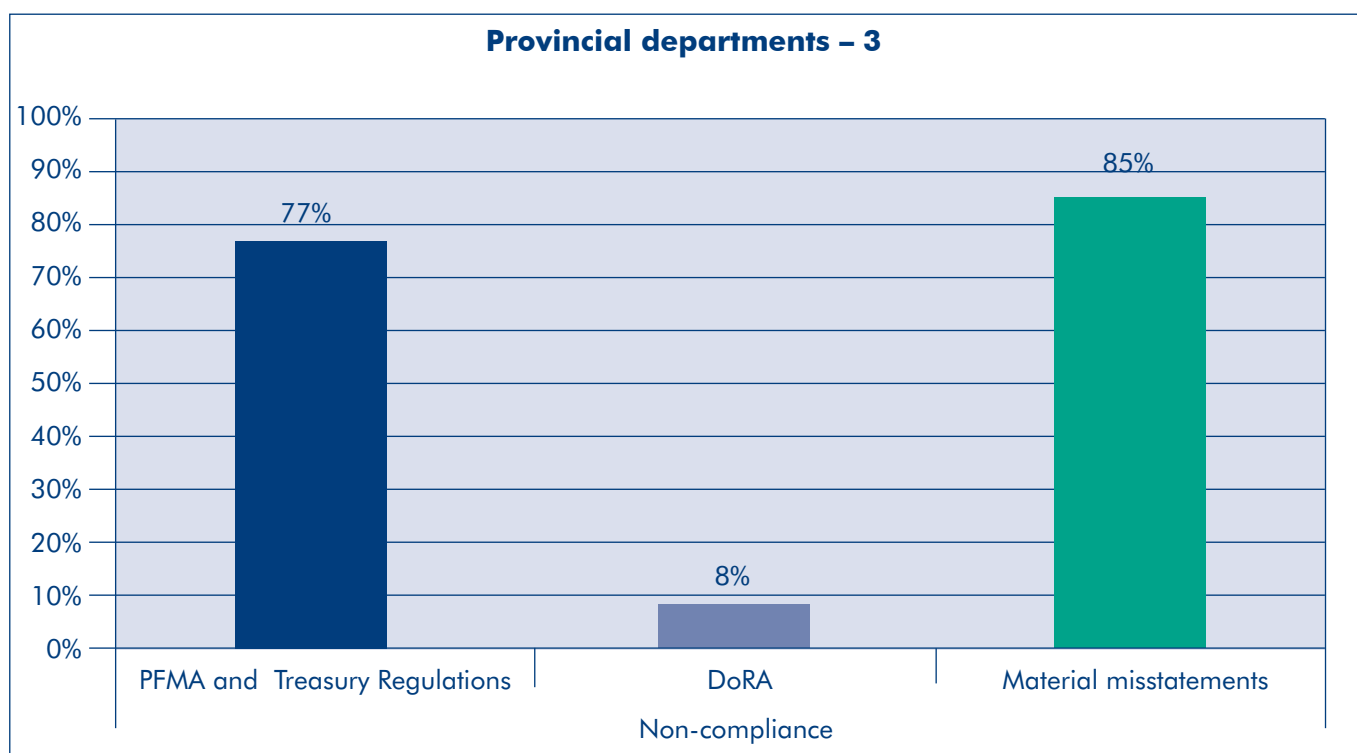
The 2008-09 amount of R15 596 000 for the Department of Roads and Transport was subsequently condoned.

6.2.1.4 Material underspending of budget

The Departments of Housing; Economic Development and Planning; Education; and Health materially underspent their budgets. The Departments of Agriculture and Land Administration as well as Finance materially underspent government grants or transfer payments. The impact of this underspending was that set objectives were not achieved.

6.2.2 Other matters: provincial departments

The incidence of some of the other matters disclosed by regulatory audits is depicted in figure 2(b) below. Details of these matters are provided in the paragraphs that follow.

Figure 2(b): Incidence of other matters: provincial departments

6.2.2.1 Non-compliance with applicable legislation

Most instances of material non-compliance with relevant legislation by departments related to the PFMA and Treasury Regulations. Non-compliance with the PFMA and Treasury Regulations was reported at the following 10 (77%) provincial departments:

- Agriculture and Land Administration
- Culture, Sport and Recreation
- Housing
- Local Government
- Social Development
- Education
- Health
- Office of the Premier
- Public Works
- Community Safety, Security and Liaison

The instances of non-compliance with the PFMA and Treasury Regulations related mainly to the following:

- Creditors not settled within 30 days from receipt of an invoice as required by section 38(1)(f) of the PFMA (45%).
- Fruitless and wasteful expenditure incurred contrary to section 38(1)(c)(ii) of the PFMA (20%).
- Responsibility regarding the safeguarding of assets not effectively discharged as required by section 38(1)(d) of the PFMA (21%).
- Clearing of suspense accounts not done on a monthly basis as required by Treasury Regulation 17.1.2b (10%).

Non-compliance with the Division of Revenue Act, 2008 (Act No. 2 of 2008) was reported at the Department of Health, as there was no proof of submission of all monthly and quarterly reports for health professional training and development as well as comprehensive HIV/Aids and revitalisation grants as required by section 12(1) of the act.

Identified root causes for the significant prevalence of non-compliance with laws and regulations include the following:

- Insufficient supervision and monitoring by leadership and management.
- Leadership and management not setting the tone at the top.
- Inadequate systems of internal control.

Increased leadership involvement, supervision and monitoring as well as the implementation of adequate systems of internal control will address and prevent instances of non-compliance with legislation by departments.

6.2.2.2 Misstatements in financial statements corrected as a result of the audit

Except for the Department of Finance and the Office of the Premier, all other departments (11), both qualified and financially unqualified, required material corrections to be made to their financial statements submitted for audit purposes. This was due to errors, omissions and inconsistencies that were identified by the auditors and that would have resulted in qualifications had the matters not been corrected. These material corrections could have been detected by the entities had the internal controls pertaining to financial reporting processes been effective, the financial reporting activities and deliverables been supervised and reviewed diligently, and the audit committees adequately reviewed the financial statements.

Approximately 70% of the material misstatements identified and corrected related to presentation and disclosure, while 30% related to misstatements in the financial statements. Deficiencies in the financial reporting processes that resulted in material corrections to the financial statements can primarily be attributed to the following:

- Attitude of management to submit financial statements on time without the necessary due diligence and to rely on the auditors to indicate the necessary corrections to be made.
- Insufficient understanding of the prescribed accounting framework.
- Internal audit units not reviewing financial statements and audit committees not having considered the financial statements prior to the submission thereof.
- Lack of appropriate systems to generate financial information regarding disclosure notes and the fact that such information was only produced at year-end.
- Human resource policies did not facilitate effective recruitment, training and supervision of personnel.
- The accounting officer did not exercise oversight responsibility over financial reporting and internal control.
- Management's philosophy and operating style did not promote effective control over financial reporting.
- Control activities were not selected and developed to mitigate risks regarding financial reporting.
- Pertinent information was not identified and captured in a form and time frame to support financial reporting and in-year financial statements were not prepared.

In order to address the prevalence of material misstatements in financial statements that had to be corrected during the audit period, leadership of departments need to:



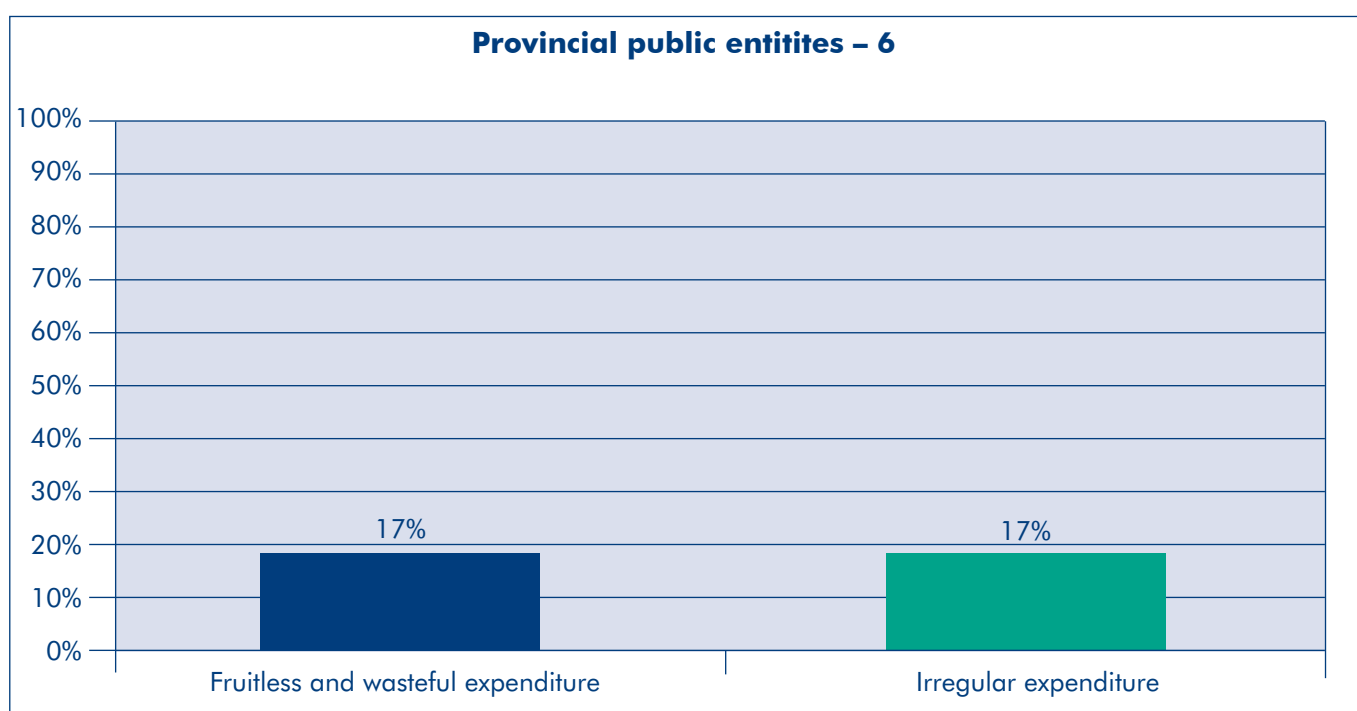
- ensure commitment of chief financial officers and re-emphasise their role in the preparation of regular management accounts, particularly relating to issues of disclosure associated with the ongoing transition to accrual accounting
- subject the financial statements to a quality review before they are submitted for auditing in order to resolve contentious accounting issues at the earliest opportunity, while internal audit and audit committees should play a crucial role in the review process of the financial statements
- prepare, review and submit monthly financial statements
- work closely with the National Treasury and the Provincial Treasury to improve financial management and controls in order to produce quality financial statements that comply with the relevant standards.

6.3 Provincial public entities

6.3.1 Emphasis of matters: provincial public entities

The incidence of some of the matters emphasised by regulatory audits is depicted in figure 3(a) below. Details of these matters are provided in the paragraphs below.

Figure 3(a): Incidence of emphasis of matters: provincial public entities



6.3.1.1 Fruitless and wasteful expenditure incurred

Fruitless and wasteful expenditure to the amount of R2 008 687 was incurred for the year (2008: R0) by the Mpumalanga Economic Growth Agency, due to interest paid on an overdue DBSA account and a VAT liability. This fruitless and wasteful expenditure was disclosed in the public entity's financial statements and therefore did not cause the audit opinion to be qualified.

6.3.1.2 Irregular expenditure incurred

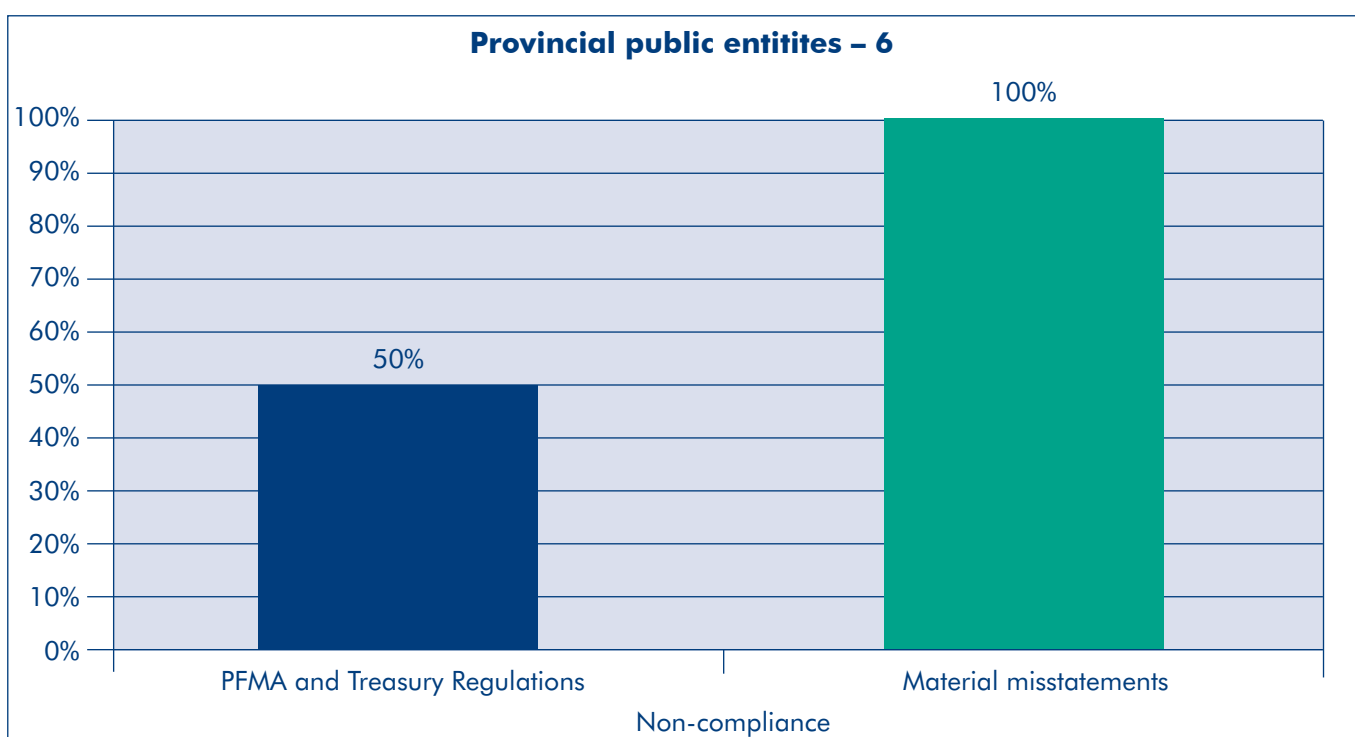
Irregular expenditure to the amount of R1 305 356 was incurred for the year (2008: R0) by the

Mpumalanga Housing Finance Company, as a proper tender process had not been followed. This irregular expenditure was disclosed in the public entity's financial statements and therefore did not cause the audit opinion to be qualified.

6.3.2 Other matters: provincial public entities

The incidence of some of the other matters disclosed by regulatory audits is depicted in figure 3(b) below. Details of these matters are provided in the paragraphs that follow.

Figure 3(b): Incidence of other matters: provincial public entities



6.3.2.1 Non-compliance with applicable legislation

All instances of material non-compliance with relevant legislation related to the PFMA and Treasury Regulations. Non-compliance with legislation was reported at three (50%) provincial public entities:

- Mpumalanga Agricultural Development Corporation
- Mpumalanga Economic Growth Agency
- Mpumalanga Housing Finance Company

These instances of non-compliance with the PFMA and Treasury Regulations related mainly to the following:

- Fruitless and wasteful expenditure incurred, contrary to section 38(1)(c)(ii) of the PFMA (20%).
- No establishment and training of a separate supply chain management unit, as required by Treasury Regulations 16A4.1 and 16A5.

Identified root causes for the significant prevalence of non-compliance with laws and regulations included the following:

- Insufficient supervision and monitoring by leadership and management.
- Leadership and management not setting the tone at the top.

Increased leadership involvement as well as supervision and monitoring by management will address and prevent instances of non-compliance with legislation by public entities.

6.3.2.2 Misstatements in financial statements corrected as a result of the audit

All six public entities (100%) required material corrections to be made to their financial statements submitted for audit purposes. This was due to errors, omissions and inconsistencies identified by the auditors that would have resulted in qualifications had the matters not been corrected. These material corrections could have been detected by the entities had the internal controls pertaining to financial reporting processes been effective, the financial reporting activities and deliverables been supervised and reviewed diligently, and the audit committees adequately reviewed the financial statements.

Approximately 90% of the material misstatements that were identified and corrected related to presentation and disclosure, while 10% related to misstatements in the financial statements. Deficiencies in the financial reporting processes that resulted in material corrections to the financial statements can primarily be attributed to the following:

- Attitude of management to submit financial statements on time without the necessary due diligence and to rely on the auditors to indicate the necessary corrections to be made.
- Insufficient understanding of the prescribed accounting framework.
- Internal audit units not reviewing financial statements and audit committees not having considered the financial statements prior to the submission thereof.
- Lack of appropriate systems to generate financial information regarding disclosure notes and the fact that such information was only produced at year-end.
- The accounting officer did not exercise sufficient oversight responsibility over financial reporting and internal control.
- Management's philosophy and operating style did not promote effective control over financial reporting.
- Control activities were not selected and developed to mitigate risks regarding financial reporting.
- Pertinent information was not identified and captured in a form and time frame to support financial reporting and in-year financial statements were not prepared.

In order to address the prevalence of material misstatements in financial statements that had to be corrected during the audit period, leadership of public entities need to:

- ensure commitment of chief financial officers and re-emphasise their role in the preparation of regular management accounts and financial statements
- subject the financial statements to a quality review before they are submitted for auditing in order to resolve contentious accounting issues at the earliest opportunity, while internal audit and audit committees should play a crucial role in the review process of the financial statements
- prepare, review and submit monthly financial statements
- work closely with the National Treasury and the Provincial Treasury to improve financial management and controls in order to produce quality financial statements that comply with the relevant standards.

SECTION 7: RESULTS OF AUDITS OF INFORMATION SYSTEMS

• Information systems

Information systems have become an integral part of organisations. Information systems enable organisations to perform financial management processes, automate business processes, improve efficiencies, and deliver services. Information systems are therefore regarded as a strategic asset in the achievement of the organisation's goals and objectives.

• Information system controls

Information system controls are a part of the internal control environment. Weak information system controls may contribute to financial management weaknesses, inaccurate accounting and performance information, poor performance of the entity, fruitless and wasteful expenditure, and non-compliance with laws and regulations. Without effective information system controls, other internal controls may also be rendered ineffective by override, circumvention or modification.

• Information system audits

The objective of information system audits is to evaluate the effectiveness of the information system controls of an organisation. During the year under review, the following types of information system audits were performed throughout the province:

- Information technology (IT) general control reviews
- User account management reviews

• IT general controls

IT general controls are those controls relating to the IT infrastructure and are imbedded in information system management processes. In the year under review, IT general control reviews were performed at two provincial departments, namely Health; and Public Works. The following table indicates the common focus area findings identified:

Table 3: Common focus area findings arising from IT general control reviews

Focus area findings	Number of departments audited	Percentage of audited departments with finding
IT governance	2	100%
Business continuity	2	100%
Service level agreements	2	50%
Operating system and logical security	2	100%



• User account management

User account management is the systematic process of managing the access of users to the network, systems and applications, and includes the establishment, review, disabling and removal of user accounts. During the year under review, user account management reviews were conducted at the provincial legislature and 12 provincial departments. The provincial Department of Local Government was excluded. The following table indicates the common key findings identified:

Table 4: Common key findings arising from user account management reviews

Findings	Number of entities audited	Percentage of audited entities with finding
Lack of, incomplete or non-adherence to user account management procedures	13	100%
Access request forms not completed or inconsistently completed	13	100%
Users' access not periodically reviewed to ensure that it remained commensurate with their job responsibilities	13	100%
Activities of the system administrators/controllers not reviewed by an independent person	13	100%
Inactive or unused user IDs not timeously removed from the system or deactivated	13	100%
Lack of segregation of duties between system controller and user functions	13	100%
Excessive access rights assigned to either some or a high number of users	13	31%

• Glossary of terms

IT governance

IT governance is the organisational capacity exercised by the board and executive management. It is an integral part of enterprise governance and consists of leadership and organisational structures and processes that ensure that the enterprise's IT unit sustains and extends the enterprise's strategies and objectives. The key elements of IT governance are strategic alignment, risk management (value preservation), value delivery (value creation), resource management, and performance management.

Business continuity

Ensuring the business continuity of information systems means that the entity is able to restore information system services in the event of major disruptions and disasters.

Service level agreements

Service level agreements ensure the delivery and quality of information systems by information system service providers.



Operating system and logical security

The operating systems and logical security within a computerised information system environment enable personnel to access and utilise information system resources and information.

SECTION 8: SIGNIFICANT FINDINGS FROM AUDITS OF HUMAN RESOURCE MANAGEMENT AND COMPENSATION OF EMPLOYEES

The regularity audits of departments included an assessment of departments' compliance with the PFMA, Treasury Regulations, Public Service Act, 1994 (Act No. 103 of 1994) (PSA), Public Service Regulations, 2001 (PSR) and directives/determinations issued by the Minister of Public Service and Administration (MPSA) that support effective human resource management and controls over the compensation of employees.

In addition to the findings from the audits, I also analysed the statistics and information published in the annual reports of the departments as required in terms of chapter 1, part III, J3 of the PSR.

The findings are presented under the following headings:

- 8.1 Human resource planning and work organisation
- 8.2 Management of vacancies
- 8.3 Appointment processes
- 8.4 Prolonged acting by officials in higher posts
- 8.5 Use of consultants
- 8.6 Suspensions
- 8.7 Leave administration
- 8.8 Budgetary control
- 8.9 Management of overtime
- 8.10 Payroll certification
- 8.11 Service terminations
- 8.12 Other findings
- 8.13 Overall conclusion

8.1 Human resource planning and work organisation

Human resource planning is required by the PSR, chapter 1, part III, D1 to ensure that a department obtains the quantity and quality of staff required to meet its strategic objectives. It is of concern that the following departments did not have a human resource plan that had been approved by their minister/ MEC:

- Local Government
- Economic Development and Planning
- Health
- Roads and Transport
- Office of the Premier

The PSR, chapter 1, part III, B2 requires departments to determine an organisational structure based on the strategic plan of the department, but the following departments did not have an approved structure:

- Local Government
- Social Development
- Health



8.2 Management of vacancies

Based on the annual reports, the average vacancy rate across all departments was 17% at year-end, with 14% of the positions for senior managers and highly skilled staff being vacant.

In general, based on the information in the annual reports, the vacancy rates have improved from the previous year, with a deterioration at the Department of Public Works due to the unavailability of adequately skilled candidates for recruitment.

8.3 Appointment processes

Recruitment and selection processes ensure that candidates are appointed with the appropriate qualifications and experience to meet the requirements of the specific post.

A directive was issued by the MPSA with effect from 1 January 2008 which determined a process whereby criminal and financial/asset records should be checked and verifications should be done of citizenship, financial state, qualifications and previous employment for all new appointments.

It is of concern that this process was not effectively implemented at the following departments:

- Agriculture and Land Administration
- Social Development
- Finance
- Health
- Public Works
- Roads and Transport
- Community Safety, Security and Liaison

Although required by the PSR, chapter 1, part VII, B1(a), the Department of Public Works did not ensure that all employees were provided with a written contract of employment upon appointment, which included the terms and conditions of their service.

8.4 Prolonged acting by officials in higher posts

Departments have the option to temporarily direct an employee to act in a higher vacant position, for which the employee is then paid an acting allowance. The PSR, chapter 1, part VII, B5.4, however, restricts the acting period to 12 months to ensure that the permanent appointment of a suitably qualified and experienced person is not delayed. The Department of Public Service and Administration (DPSA) determination on acting allowances for the senior management service (SMS) further restricts the period for acting in an SMS position to six months unless prior approval is obtained from the minister/MEC. Instances were found at the following departments where SMS members received acting allowances for more than six months without the necessary prior approval:

- Culture, Sport and Recreation
- Health
- Roads and Transport

8.5 Use of consultants

Consultants can be engaged if the necessary skills and/or resources to perform a specific project are not



available and the department cannot be reasonably expected either to train or to recruit people in the time available. Based on the annual reports, consultants were employed at 50% of the departments. The total number of consultants appointed using appropriated funds was 241, at a total contract value of R373 514 609.

Departments should assess whether the appointment of consultants is the most economical way of addressing departmental needs, also taking into account the need for continuity and sustainability of the function the consultant is engaged to perform. If the function is provided for on the establishment of the department, consultants should not be used either as a result of a lack of productivity or capacity of existing staff or as a result of ineffective processes to appoint or recruit suitable permanent staff. The use of consultants by government departments was identified as a transversal performance audit area for the 2009-10 financial year.

8.6 Suspensions

Based on the annual reports, 76 employees were suspended across seven departments. The average number of days on suspension was 173, with 84% of the employees being suspended for more than 30 days. The total cost of the suspensions was estimated to be R5 143 000.

Departments should ensure that disciplinary processes are concluded timeously, as prolonged suspension periods impact on service delivery and have cost implications.

8.7 Leave administration

Annual leave

The PSR, chapter 1, part V, F(b) requires heads of departments to record all leave taken by an employee accurately and in full. The following departments did not consistently comply with this regulation, resulting in employees' leave credits being overstated:

- Public Works
- Health
- Finance

The risk of such overstatement is that employees might be granted leave or receive leave payouts they are not entitled to. According to the annual reports of the mentioned departments, leave payouts of R5 339 000 were made during the period. The cause for shortcomings in leave administration is inadequate manual controls to ensure that all leave taken is recorded and the payroll system is timeously updated.

Capped leave

In July 2000 leave entitlement was changed from calendar days to working days. Employees retained the leave credits accrued prior to July 2000, provided the credits were audited by the department. This audit resulted in negative capped leave balances for a number of employees, as more leave had been taken than the employees were entitled to. In terms of the DPSA determination on leave, the leave should then have been deducted from the subsequent leave cycle. After a period of up to eight years, the following departments had not done so, generally being reluctant to address such a controversial matter with affected employees:



- Public Works – the monetary value as disclosed in the financial statements was R304 000
- Health – the monetary value as disclosed in the financial statements was R213 899 000

Family responsibility leave

Employees are granted family responsibility leave of up to five days in an annual leave cycle unless special circumstances warrant further leave at the discretion of the head of the department. Instances of more than five days' family responsibility leave being granted without the necessary approval were found at the Department of Health, which can be an indication of inadequate control over the granting of this privilege.

Leave payouts

Leave is paid out to employees in special circumstances and at termination of their service. The calculation is done manually based on the formulas determined by the DPSA. At the Department of Local Government, instances were found where the calculations had been done incorrectly.

8.8 Budgetary control

Treasury Regulation 8.3.2 requires that all costs related to the compensation of employees, including promotions and salary increases, should be met within the budgetary allocation of the institution. Any additional budgets must be approved by the relevant treasury.

The following departments materially overspent their compensation budgets, resulting in irregular expenditure in the amounts indicated:

- Agriculture and Land Administration – R12 636 000
- Local Government – R2 153 000
- Social Development – R5 797 000
- Education – R414 005 000
- Health – R2 178 000
- Public Works – R9 919 000
- Roads and Transport – R15 596 000

The overspending was due to the effect of the improvement in the conditions of service which exceeded the budget increment.

8.9 Management of overtime

The PSR, chapter 1, part V, D2 determines the circumstances under which employees may be compensated for overtime worked.

Overtime policy

The Department of Health did not have a written policy on overtime, due to a lack of leadership to ensure that proper financial management policies and procedures were in place.

Authorisation of overtime

At the following departments, written authorisation was not consistently provided in advance of the overtime work:

- Health
- Public Works

This mainly occurred due to human resource policies and procedures not having been developed and implemented and the inadequate assignment of powers and duties in this regard.

Limit on overtime

At the following departments, the monthly compensation for overtime was not limited to less than 30% of the employees' monthly salaries and no exceptional circumstances existed:

- Finance
- Health
- Local Government

At the Department of Local Government, employees worked overtime to assist with the elections as well as with the finalisation of the processes of splitting the Department of Local Government and Housing. At the other departments, a shortage of staff necessitated the payment of overtime.

Overtime payments

At the Department of Public Works, instances were found where the calculation of overtime payments had been done incorrectly. This can be an indication that officials cannot apply the formulas correctly and are not appropriately supervised and reviewed.

8.10 Payroll certification

The certification of the payroll on a monthly basis is required by Treasury Regulations 8.3.4 and 8.3.5 as a control to ensure that there are no ghost employees on the payroll, that employees are entitled to the payment made, and that employees are allocated to the correct pay point.

Instances were found at the following departments indicating that the prescribed control was not fully implemented:

Department	Certified payrolls not returned within 10 days to finance department	Completeness of certified payroll reports not checked
Department of Public Works	X	
Department of Local Government	X	X

The findings at the Department of Public Works were due to the department's organisational structure not addressing areas of responsibility and establishing lines of reporting in order to support effective internal control over financial reporting.

At the Department of Local Government, the findings related to traditional leaders, tribal headmen and community development workers. These people live in remote areas and it is thus a challenge to return the signed payroll certificates on time.



8.11 Service terminations

Employees whose services had been terminated were not timeously removed from the payroll at the following departments, resulting in overpayments:

- Agriculture and Land Administration
- Local Government
- Social Development
- Education
- Finance
- Health
- Public Works

Furthermore, overpayments were not always correctly calculated and/or recovered or reclassified as debt by year-end at the following departments:

- Social Development
- Finance
- Health
- Public Works

The reason for the findings is generally that service termination processes and controls either had not been implemented or were not operating effectively.

8.12 Other findings

Clearing of suspense accounts

All clearing and suspense accounts relating to salaries and wages were not cleared at year-end, where necessary, at the following departments:

- Public Works
- Finance
- Local Government
- Agriculture and Land Administration

8.13 Overall conclusion

Extensive legislation is in place that supports effective human resource management and controls over the compensation of employees. The findings from the assessment set out above indicate non-compliance with legislation that stretches over various areas of human resource management. The accounting officers are not fulfilling their responsibilities to ensure that effective and efficient systems of financial and risk management and internal control are in place, which leads to non-compliance with the applicable legislation.

SECTION 9: RESULTS OF AUDITS OF PERFORMANCE INFORMATION

This section of the provincial general report provides details of the results of the AG's audits of performance information at the provincial legislature, departments and public entities, under the following headings:

- The AG's statutory responsibilities relating to the audit of performance information
- Key findings arising from the audit of performance information at the provincial legislature, departments and public entities
- The way forward regarding performance information reporting

9.1 The AGSA's statutory responsibilities relating to the audit of performance information

In terms of section 13 of the PAA and based on the results of a readiness assessment of audited entities during November 2008, the AG decided to provide reasonable assurance in the form of an audit conclusion on the reporting of performance against predetermined objectives at the following categories of audited entities:

- National and provincial departments, constitutional institutions and trading entities
- National and provincial public entities
- Municipal metropolitan councils and the related municipal entities

For the above-mentioned categories of audited entities, a separate audit conclusion will be included in the auditor's reports with effect from the 2010-11 financial year. Audit conclusions in this regard will be reached as part of the financial auditing process in terms of the International Standards on Assurance Engagements (ISAE) 3000, *Assurance Engagements other than Audits or Reviews of Historical Financial Information*.

This approach will also be followed for the 2009-10 audit cycles, with only one exception. While all audit work will focus on the expression of an opinion on the performance information of national and provincial departments, their public entities and metropolitan councils and their entities, these opinions will not yet be lifted to the level of the individual audit reports. Instead, a reflection on the entities' performance information, should an opinion have been expressed, will be contained at management report level. An opinion will thus be prepared but not expressed publicly beyond being annexed to the management report as part of the readiness strategy.

The objective of an audit of performance information is to enable the auditor to conclude whether the reported performance against predetermined objectives is reliable, accurate and complete, in all material respects, based on predetermined criteria.

The AGSA recognises the following as sources of criteria against which the subject matter will be evaluated as a basis for the audit conclusions:

- All relevant laws and regulations
- Framework for the managing of programme performance information, issued by the National Treasury
- Relevant frameworks, circulars and guidance issued by the National Treasury and the Presidency regarding the planning, management, monitoring and reporting of performance information



In terms of section 13 of the PAA, the AG has adopted a phasing-in approach to adherence with sections 20 and 28 of the PAA, until such time as the environment shows a state of readiness to provide reasonable assurance in the form of an audit opinion or conclusion, at municipalities and municipal entities other than those listed in paragraph 1 above.

The phasing-in approach to the auditing of performance information for the municipalities and municipal entities, referred to in paragraph 6, will constitute a review of the policies, systems, processes and procedures for the managing of and reporting on performance against predetermined objectives.

9.2 Key findings arising from the 2008-09 audit of performance information at the provincial legislature, departments and public

Broad areas examined were as follows:

- *Compliance with regulatory requirements:* The scope of audit work and audit findings relate to compliance with the PFMA and Treasury Regulations pertaining to the planning, management, monitoring, review and reporting of performance information.
- *Usefulness of reported information:* Audit work focused on the consistency, relevance and measurability of planned and reported performance information.
- *Reliability of reported performance information:* Audit work focused on whether the reported performance information could be traced back to the source data or documentation and whether the reported information is accurate and complete in relation to the source data, evidence or documentation.

In table 5 below, key audit findings arising from the audit of performance information are listed. Deficiencies in internal control that caused these findings are analysed in the paragraphs that follow.

Table 5: Key audit findings arising from the audit of performance information

No.	Main findings	Percentage of institutions with findings		
		Provincial departments	Provincial public entities	Provincial legislature
1	Non-compliance with regulatory requirements	46%	67%	0%
2	Usefulness of reported performance information	38%	67%	100%
3	Reported performance information not reliable	54%	17%	0%
4	Performance information not received in time for audit purposes	0%	0%	0%

Causes of deficiencies in performance information reporting

Identified root causes in the reporting of performance information are the following:



Non-compliance with regulatory requirements

- Lack of effective, efficient and transparent systems and internal controls over performance information reporting.
- Inadequate management processes.
- Non-compliance with internal policies and procedures.

Usefulness of performance information

- Inadequate presentation of reported performance information.
- Quality of performance indicators and targets inadequate.

Reported performance information not reliable

- Lack of effective, efficient and transparent systems and internal controls over performance information reporting.

The following were the only departments and entities that were exemplary in the management of service delivery processes, and as such had no shortcomings in any of the above categories:

- Department of Finance
- Department of Roads and Transport
- Mpumalanga Gambling Board
- Mpumalanga Tourism and Parks Agency

During the previous 12 months, the importance and principles of the audit of performance information were discussed and explained to all auditees at the various steering committee meetings as well as during the business executive's interactions with MECs, the Speaker and the Premier. Senior management also made presentations that included information on the audit of performance information to the provincial SCOPA and CFO forums as well as at the SALGA lekgotla.

9.3 The way forward regarding performance information reporti

The leadership of the province should implement processes to ensure greater credibility of performance information, as it reflects the service delivery achievements of the provincial government. Furthermore, it is imperative to prioritise actions to strengthen internal controls regarding performance information.

The provincial legislature, departments and public entities should make full use of the opportunity in 2009-10 to prepare for the audit opinion that is to be expressed on the performance information presented in their annual reports in future.

SECTION 10: CONSOLIDATED FINANCIAL STATEMENTS

In terms of sections 8 and 19 of the PFMA, the National Treasury and provincial treasuries, respectively, are required to prepare consolidated financial statements in accordance with generally recognised accounting practice for each financial year in respect of departments, and/or constitutional entities, public entities and other entities. The AG issues separate audit reports for consolidated departments and entities. Agreed-upon procedures are performed on the provincial consolidated financial statements and the consolidated national entities. An audit opinion is expressed on the consolidated national departments.

The status of the preparation of consolidated financial statements as at 31 July 2009 is reflected in table 6 below.

Table 6: Status of preparation of consolidated financial statements as at 31 July 2009

Region	2008-09		Revenue fund financial statements published 2008-09	2007-08		2006-07		2005-06	
	Consolidated financial statements received	Audit report issued		Consolidated financial statements received	Audit report issued	Consolidated financial statements received	Audit report issued	Consolidated financial statements received	Audit report issued
Mpumalanga	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

The audit report on the consolidated financial statements was issued on 30 September 2009 in accordance with the legislative requirements.

Table 7 below provides information on key figures contained in the consolidated financial information for the provincial legislature and 12 departments.

Table 7: Key figures contained in the consolidated financial information for the provincial legislature and 12 departments

Key figures	Amount (R) 2007-08	Amount (R) 2006-07
Total revenue	18 375 779 000	13 597 577 000
Total expenditure	16 372 248 000	12 897 175 000
Surplus/(Deficit)	2 097 602 000	721 649 000
Total assets	2 206 334 000	1 252 680 000
Total liabilities	1 701 816 000	1 587 774 000
Net assets	504 518 000	(335 094 000)
Unauthorised expenditure	162 733 000	73 582 000
Cash and cash equivalents/(Net overdraft)	842 100 000	759 983 000



SECTION 11: STATUS OF TABLING OF ANNUAL REPORTS

In accordance with section 65 of the PFMA, the executive authority responsible for a department must table in the provincial legislature the annual report and financial statements as well as the audit report on those statements, within one month of receipt of the audit report. All departments and provincial public entities tabled their annual reports for the year ended 31 March 2009, as set out in the table below.

Table 8: Status of tabling of annual reports by executive authorities

No.	Name of institution	Tabled (Y/N)	Date submitted to the legislature	Date tabled in the House
1	Mpumalanga Legislature	Y	30/09/2009	30/09/2009
2	Department of Agriculture and Land Administration	Y	30/09/2009	30/09/2009
3	Department of Culture, Sport and Recreation	Y	30/09/2009	30/09/2009
4	Department of Housing	Y	30/09/2009	30/09/2009
5	Department of Local Government	Y	30/09/2009	30/09/2009
6	Department of Social Development	Y	30/09/2009	30/09/2009
7	Department of Economic Development and Planning	Y	30/09/2009	30/09/2009
8	Department of Education	Y	30/09/2009	30/09/2009
9	Department of Finance	Y	30/09/2009	30/09/2009
10	Department of Health	Y	30/09/2009	30/09/2009
11	Office of the Premier	Y	30/09/2009	30/09/2009
12	Department of Public Works	Y	30/09/2009	30/09/2009
13	Department of Roads and Transport	Y	30/09/2009	30/09/2009
14	Department of Community Safety, Security and Liaison	Y	30/09/2009	30/09/2009
15	Mpumalanga Gambling Board	Y	30/09/2009	30/09/2009
16	Mpumalanga Tourism and Parks Agency	Y	30/09/2009	30/09/2009
17	Mpumalanga Regional Training Trust	Y	30/09/2009	30/09/2009
18	Mpumalanga Agricultural Development Corporation	Y	30/09/2009	30/09/2009
19	Mpumalanga Economic Growth Agency	Y	30/09/2009	30/09/2009
20	Mpumalanga Housing Finance Company	Y	30/09/2009	30/09/2009



SECTION 12: STATUS REPORT ON PERFORMANCE AUDITS, INVESTIGATIONS AND SPECIAL AUDITS

Presented in this section of the report are the results of performance audits, investigations and special audits conducted by the AGSA.

12.1 Performance audits

A performance audit is described as an independent auditing process to evaluate the measures instituted by management to ensure that resources have been procured economically and are used efficiently and effectively.

Performance auditing is concerned with the auditing of economy, efficiency and effectiveness, and embraces:

- (a) auditing of economy in relation to the acquisition of resources in the right quantity, of the right quality, at the right time and place at the lowest possible cost
- (b) auditing of the efficiency of the utilisation of human, financial and other resources and the optimal relationship between the output of goods, services or other results and the resources used to produce them
- (c) auditing of the effectiveness of the performance of the audited entity in relation to the achievement of the policy objectives, operational goals and other intended effects.

The expected dates of submission of performance audit reports are provided in the table below.

Table 9: Performance audits conducted and expected/actual dates of tabling of reports

No.	Name of entity	Report description	Expected/ Actual date of tabling
1	Department of Education	Investment in infrastructure	March 2010
2	Department of Health	Investment in infrastructure	March 2010
3	Transversal	Entities that are connected with government employees doing business with departments	May 2009

12.2 Investigations conducted

"Investigation" as contemplated in section 5(1)(d) of the PAA is defined as an independent and objective process where procedures are performed in accordance with guidelines issued by the AGSA to facilitate the investigation of financial misconduct, maladministration and impropriety, which may result in legal proceedings for adjudication and to ensure probity in the accounts, financial statements and financial management of an institution referred to in section 4(1) and 4(3) of the PAA. An investigation may be performed where the AGSA:



- (a) considers it to be in the public interest
- (b) receives a complaint relating to such institution or its affairs
- (c) receives a request relating to such institution or its affairs

and deems it appropriate.

This will result in a report (as contemplated in section 20 of the PAA) or a special report (as contemplated in section 29 of the PAA).

No investigations were conducted by the AGSA regarding the provincial departments or provincial public entities of the Mpumalanga Province.

12.3 Special audits conducted

No special audit reports have been issued relating to the Mpumalanga Province since the last general report, as envisaged in section 5(1)(d) of the PAA.

ANNEXURES TO THE GENERAL REPORT

The following annexures provide further details on matters contained in the provincial general report:

Annexure 1: 2008-09 audit outcomes

- 1a Listing of entities' audit opinions and qualification findings
- 1b Listing of entities with emphasis of matters and other matters findings
- 1c Five-year analysis of audit outcomes

Annexure 2: Listing of entities that registered improved or deteriorated audit outcomes

Annexure 3: Listing of "special purpose entities" linked to auditees not consolidated and/or not audited by the AGSA

Annexure 4: Summaries of audit reports:

- 4.1 Provincial legislature
- 4.2 Provincial departments
- 4.3 Provincial public entities

ANNEXURE 1a: Listing of entities' audit opinions and qualification findings

Classification	Department/Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Audit opinion: 2006-07	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingent liabilities and guarantees	Taxes and V AT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses/impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Other general issues
PD	Department of Agriculture and Land Administration	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
PD	Department of Culture, Sport and Recreation	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
PD	Department of Housing	Financially unqualified (with other matters)	No opinion – new department	No opinion – new department																
PD	Department of Local Government	Financially unqualified (with other matters)	Qualified	Qualified																
PD	Department of Social Development	Qualified	Qualified	Qualified																
PD	Department of Economic Development and Planning	Financially unqualified (with other matters)	Qualified	Qualified																
PD	Department of Education	Qualified	Qualified	Qualified																
PD	Department of Finance	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with no other matters)																
PD	Department of Health	Qualified	Qualified	Qualified																
PPE	Mpumalanga Agricultural Development Corporation	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified																
PPE	Mpumalanga Economic Growth Agency	Financially unqualified (with other matters)	Qualified	Qualified																
PPE	Mpumalanga Gambling Board	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)																
PPE	Mpumalanga Housing Finance Company	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
PL	Mpumalanga Provincial Legislature	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
PPE	Mpumalanga Regional Training Trust	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)																

ANNEXURE 1a: Listing of entities' audit opinions and qualification findings (continues)

Classification	Department/Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Audit opinion: 2006-07	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingent liabilities and guarantees	Taxes and V AT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses/impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Other general issues
PPE	Mpumalanga Tourism and Parks Agency	Financially unqualified (with other matters)	Qualified	Disclaimer																
PD	Office of the Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
PD	Department of Public Works	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified																
PD	Department of Roads and Transport	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
PD	Department of Community Safety, Security and Liaison	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)																

Qualification



ANNEXURE 1b: Listing of entities with emphasis of matters and other matters findings

Classification	Department/Entity	Audit opinion: 2008-09	Emphasis of matters							Other matters			
			Financial sustainability	Material losses/ impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Material underspending of the budget	PFMAT/Treasury Regulations	DORA	Supply chain management	Other enabling legislation	Material misstatements corrected
PD	Department of Agriculture and Land Administration	Financially unqualified (with other matters)											
PD	Department of Culture, Sport and Recreation	Financially unqualified (with other matters)											
PD	Department of Housing	Financially unqualified (with other matters)											
PD	Department of Local Government	Financially unqualified (with other matters)											
PD	Department of Social Development	Qualified											
PD	Department of Economic Development and Planning	Financially unqualified (with other matters)											
PD	Department of Education	Qualified											
PD	Department of Finance	Financially unqualified (with other matters)											
PD	Department of Health	Qualified											
PPE	Mpumalanga Agricultural Development Corporation	Financially unqualified (with other matters)											
PPE	Mpumalanga Economic Growth Agency	Financially unqualified (with other matters)											
PPE	Mpumalanga Gambling Board	Financially unqualified (with other matters)											
PPE	Mpumalanga Housing Finance Company	Financially unqualified (with other matters)											
PL	Mpumalanga Legislature	Financially unqualified (with other matters)											
PPE	Mpumalanga Regional Training Trust	Financially unqualified (with other matters)											
PPE	Mpumalanga Tourism and Parks Agency	Financially unqualified (with other matters)											
PD	Office of the Premier	Financially unqualified (with other matters)											
PD	Department of Public Works	Financially unqualified (with other matters)											
PD	Department of Roads and Transport	Financially unqualified (with other matters)											
PD	Department of Community Safety, Security and Liaison	Financially unqualified (with other matters)											

Audit finding

ANNEXURE 1c: Five-year analysis of audit outcomes

Entity type	Institution	Audit opinion: 2008-09	Audit opinion: 2007-08	Audit opinion: 2006-07	Audit opinion: 2005-06	Audit opinion: 2004-05
PD	Department of Agriculture and Land Administration	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
PD	Department of Culture, Sport and Recreation	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
PD	Department of Housing	Financially unqualified (with other matters)	Not applicable – new department	Not applicable – new department	Not applicable – new department	Not applicable – new department
PD	Department of Local Government	Financially unqualified (with other matters)	Qualified	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
PD	Department of Social Development	Qualified	Qualified	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
PD	Department of Economic Development and Planning	Financially unqualified (with other matters)	Qualified	Qualified	Financially unqualified (with other matters)	Qualified
PD	Department of Education	Qualified	Qualified	Qualified	Disclaimer	Disclaimer
PD	Department of Finance	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
PD	Department of Health	Qualified	Qualified	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
PPE	Mpumalanga Agricultural Development Corporation	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Financially unqualified (with no other matters)	None
PPE	Mpumalanga Economic Growth Agency	Financially unqualified (with other matters)	Qualified	Qualified	None	None
PPE	Mpumalanga Gambling Board	Financially unqualified (with other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	None
PPE	Mpumalanga Housing Finance Company	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	None
PL	Mpumalanga Legislature	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
PPE	Mpumalanga Regional Training Trust	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	None
PPE	Mpumalanga Tourism and Parks Agency	Financially unqualified (with other matters)	Qualified	Disclaimer	None	None
PD	Office of the Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
PD	Department of Public Works	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
PD	Department of Roads and Transport	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
PD	Department of Community Safety, Security and Liaison	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)



ANNEXURE 2: Listing of entities that registered improved or deteriorated audit outcomes**Entities registering improved audit outcomes**

No.	Department/Public entity	Audit opinion: 2008-09	Audit opinion: 2007-08
1	Department of Local Government	Financially unqualified (with other matters)	Qualified
2	Department of Economic Development and Planning	Financially unqualified (with other matters)	Qualified
3	Mpumalanga Economic Growth Agency	Financially unqualified (with other matters)	Qualified
4	Mpumalanga Regional Training Trust	Financially unqualified (with other matters)	Qualified
5	Mpumalanga Tourism and Parks Agency	Financially unqualified (with other matters)	Qualified

Entities registering deteriorated audit outcomes

No.	Department/Public entity	Audit opinion: 2008-09	Audit opinion: 2007-08
1	Mpumalanga Gambling Board	Financially unqualified (with other matters)	Financially unqualified (with no other matters)

ANNEXURE 3: Listing of special purpose entities linked to auditees not consolidated and/or not audited by the AGSA

Department	Name of entity	Entity type [SPV/PPS/joint venture, etc.]	Nature of business	Name of auditor
National Department of Education	National Institute for Higher Education			Pricewaterhouse- Coopers

ANNEXURE 4.1: AUDIT REPORT SUMMARIES (legislature)

1. PROVINCIAL LEGISLATURE

Financially unqualified (with other matters)

Emphasis of matters

Amendment to the applicable basis of accounting

- The financial statements disclosed that the legislature had recognised certain immovable assets that might belong to the provincial Department of Public Works, due to the uncertainty regarding the legal title of the assets.

Material underspending of the budget

- As disclosed in the appropriation statement, the legislature materially underspent its budget on facilities to members and political parties to the amount of R5 822 000.

Other matters

Non-compliance with applicable legislation

PFMA and Treasury Regulations

- Payments due to creditors were not always settled within 30 days from receipt of an invoice, as required in terms of section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3.

Key governance responsibilities

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- Financial statements were subject to material amendments resulting from the audit.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- Prior year audit findings were not substantially addressed.

Report on performance information

Reported performance information not relevant

- Targets with regard to certain programmes were not specific in clearly identifying the nature and the required level of performance, measurable in identifying the required performance, and time bound in specifying the time period or deadline for delivery.

ANNEXURE 4.2: AUDIT REPORT SUMMARIES (departments)

1. AGRICULTURE AND LAND ADMINISTRATION

Financially unqualified (with other matters)

Emphasis of matters

Amendment to the applicable basis of accounting

- The financial statements disclosed that the department had recognised certain immovable assets that might belong to the provincial Department of Public Works, due to the uncertainty regarding the legal title of the assets.
- Unauthorised, irregular as well as fruitless and wasteful expenditure
- The department incurred and disclosed the following expenditure in its financial statements:
 - Unauthorised expenditure to the amount of R9 204 000 due to overspending on certain programmes.
 - Irregular expenditure to the amount of R12 636 000 due to overspending on the compensation of employees.
 - Fruitless and wasteful expenditure to the amount of R208 000 due to VAT payments to non-VAT vendors.

Material underspending of the budget

- As disclosed in the appropriation statement, the department materially underspent its budget on agricultural economics to the amount of R11 009 000.

Other matters

Non-compliance with applicable legislation

PFMA and Treasury Regulations

- The accounting officer did not comply with section 85(1)(a) and (e) of the PFMA, read with Treasury Regulation 4.3.4, relating to the submission of a report to the relevant treasury and the AG on the outcome of disciplinary hearings.

Key governance responsibilities

- Significant difficulties were experienced during the audit concerning delays or the unavailability of requested information.
- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- Key officials were not available throughout the audit process.
- The audit committee did not operate in accordance with approved, written terms of reference.
- The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 3.2.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.



- A risk assessment was not conducted.
- Prior year audit findings were not substantially addressed.

Report on performance information

- Reported performance information not relevant
- Targets in subprogramme 2.2: land care were not time bound in specifying the time period or deadline for delivery.

2. CULTURE, SPORT AND RECREATION

Financially unqualified (with other matters)

Emphasis of matters

Amendment to the applicable basis of accounting

- The financial statements disclosed that the department had recognised certain immovable assets that might belong to the provincial Department of Public Works, due to the uncertainty regarding the legal title of the assets.

Unauthorised, irregular as well as fruitless and wasteful expenditure

- The department incurred and disclosed the following expenditure in its financial statements:
 - Unauthorised expenditure to the amount of R12 378 000 due to overspending in the administration and the sports and recreation programmes.
 - Irregular expenditure to the amount of R5 0446 000 as departmental obligations were settled using conditional grant funds.
 - Fruitless and wasteful expenditure to the amount of R129 000 due to abortive consultancy costs on the archive buildings.

Other matters

Non-compliance with applicable legislation

PFMA and Treasury Regulations

- The department's acquisition policy was inadequate and unclear in addressing the provisions of Treasury Regulation 16A.3.2(b).

Key governance responsibilities

- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- The audit committee did not substantially fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management and compliance with applicable laws and regulations.
- Prior year audit findings were not substantially addressed.



Report on performance information

Lack of source documentation

- The reported actual achievement of targets for the archives and library services subprogramme could not be substantiated by adequate source documentation.

Lack of reporting on all predetermined objectives

- The department did not report on all predetermined objectives, as required by section 55(2)(a) of the PFMA and Treasury Regulation 28.2.2.

3. ECONOMIC DEVELOPMENT AND PLANNING

Financially unqualified (with other matters)

Emphasis of matters

Material underspending of the budget

- As disclosed in the appropriation statement, the department materially underspent the budget on programme 5: economic planning by R2 094 000 (15,6% of the appropriation amount).

Other matters

Key governance responsibilities

- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- A fraud prevention plan was not implemented.

Report on performance information

Source information not accurate and complete

- The source information or evidence provided to support the reported performance information with regard to programme 2: integrated economic development services and programme 4: business regulation and governance did not adequately support the accuracy and completeness of the facts.

4. EDUCATION

Qualified

Capital assets

- I was unable to obtain sufficient appropriate audit evidence concerning the completeness and accuracy of capital assets at 31 March 2009 to the amount of R1 246 003 000, as disclosed in notes 27 and 29 to the financial statements. The department did not perform a reconciliation or submit any explanations or supporting documentation regarding the difference of R833 533 073 between the



fixed asset register and the amount disclosed in the financial statements. I could also not perform any alternative procedures to gain adequate audit assurance in this regard.

- I was unable to obtain sufficient appropriate audit evidence concerning the accuracy of the adjustments to the opening balance of major capital assets of R51 914 000, as presented in disclosure note 27 to the financial statements, due to the lack of supporting documentation for these adjustments. I was also unable to perform any alternative audit procedures to gain adequate audit assurance with regard to the accuracy of this amount.
- I was unable to obtain sufficient appropriate audit evidence concerning the existence of non-residential buildings to the amount of R849 366 000, as disclosed in note 29 to the financial statements. I was also unable to perform any alternative audit procedures to gain adequate audit assurance with regard to the existence of this amount.
- I was unable to obtain sufficient appropriate audit evidence concerning the accuracy of the non-cash additions to the amount of R21 009 000 in disclosure note 27.2 to the financial statements, as the department did not provide sufficient supporting documentation for these additions. I was unable to carry out any alternative audit procedures I would consider necessary to gain adequate audit assurance as to the accuracy of this amount.
- In terms of the definition of assets included in the basis of accounting, assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential is expected to flow to the entity.
 - Included in disclosure note 27.1 were additions to computers and equipment to the amount of R31 000 000 that were not under the control of the department. These additions should have been transferred to the respective schools. Therefore, additions as well as capital assets at 31 March 2009, as disclosed in note 27.1 to the financial statements, were overstated by R31 000 000.
 - The department did not disclose residential properties in the financial statements although rental income of R969 431 was received in respect of the lease of residential buildings. The value of the buildings by which the capital assets were understated could not be determined, as it was impracticable to do so.

Commitments

- I could not obtain sufficient appropriate evidence as to the accuracy and completeness of commitments to the amount of R438 221 000 and lease commitments to the amount of R668 352 000, as disclosed in notes 20 and 23 to the financial statements, respectively.

Accruals

- The department did not accrue for invoices amounting to R31 131 500, due to a lack of internal controls. Therefore, accruals at 31 March 2009, as disclosed in note 21 to the financial statements, were understated by R31 131 500.

Expenditure

- I was unable to obtain sufficient appropriate audit evidence concerning the validity of goods and services as disclosed in the statement of financial performance, as the department could not provide sufficient audit evidence for expenditure amounting to R44 423 700. I was unable to carry out any alternative audit procedures I would consider necessary to gain adequate audit assurance as to the accuracy of this amount.



Emphasis of matters

Amendment to the applicable basis of accounting

- The financial statements disclosed that the department had recognised certain immovable assets that might belong to the provincial Department of Public Works, due to the uncertainty regarding the legal title of the assets.

Irregular expenditure

- The department incurred irregular expenditure to the amount of R414 005 000, as the budgeted amount for the compensation of employees was overspent.

Unauthorised expenditure

- The department incurred unauthorised expenditure to the amount of R321 964 000, as certain programmes were overspent and conditional grant amounts were utilised to apply for goods and services.

Material underspending of the budget

- As disclosed in the appropriation statement, the department materially underspent its budget on certain programmes to the amount of R253 665 000.

Other matters

Non-compliance with applicable legislation

PFMA and Treasury Regulations

- Certain employees of the department did not declare their business interests, as required by section 50(3)(a) and (b) of the PFMA.
- The accounting officer did not comply with section 85(1)(a) and (e) of the PFMA, read with Treasury Regulation 4.3.4, dealing with the submission of a report to the relevant treasury and the AG on the outcome of disciplinary hearings.
- Payments due to creditors were not always made within 30 days from receipt of an invoice, as required in terms of section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3.

Key governance responsibilities

- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- Significant difficulties were experienced during the audit concerning delays and the unavailability of expected information as well as the unavailability of senior management.
- Key officials were not available throughout the audit process.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management and compliance with applicable laws and regulations.
- Prior year audit findings were not substantially addressed.

Report on performance information

Reported performance information not relevant

- All targets with regard to the subprogrammes: public primary schools, public secondary schools and infrastructure were not time bound in specifying the time period or deadline for delivery.

Source information not accurate and complete

- The source information or evidence provided to support the reported performance information with regard to the subprogramme: infrastructure did not adequately support the accuracy and completeness of the facts.

5. FINANCE

Financially unqualified (with other matters)

Emphasis of matters

Material underspending of the budget

- As disclosed in the appropriation statement, the department materially underspent its budget on programme 2: sustainable resource management to the amount of R76 000 000 (30% of the appropriated amount).

Report on performance information

No significant findings were reported.

6. HEALTH

Qualified

Movable tangible capital assets

- Despite the fact that the disclosure note to the financial statements agreed to the fixed asset register, the fixed asset register was inadequate and incomplete, as several differences were identified. I could therefore not obtain sufficient appropriate audit evidence as to the existence, completeness and valuation of movable tangible capital assets to the amount of R1 013 000 000 (2008: R1 130 000 000).

Immovable tangible capital assets

- Due to the lack of supporting documentation, I could not obtain sufficient appropriate audit evidence as to the rights and obligations, existence, completeness and valuation of immovable assets disclosed at R374 093 000 in the financial statements.

Intangible capital assets

- Adjustments made to intangible capital assets to the amount of R9 187 000 were not supported by



sufficient appropriate audit evidence. I was unable to perform suitable alternative procedures and could therefore not gain adequate audit assurance as to the completeness, existence, rights and valuation of intangible capital assets.

Departmental revenue

- Included in departmental revenue to the amount of R61 416 000 were patient fees, rent for official accommodation, the sale of various items and medical reports requested. There was no system of internal control over such revenue on which I could rely for the purposes of my audit. There were also no satisfactory audit procedures that I could perform to obtain reasonable assurance that all revenue generated had been completely and correctly recorded. As a result, I could not obtain sufficient appropriate audit evidence as to the completeness and accuracy of the accounting records beyond the actual receipts recorded, and therefore departmental revenue as disclosed.

Receivables for departmental revenue

- Receivables for departmental revenue to the amount of R61 162 000 as disclosed in the financial statements were understated, as it did not include the receivables for departmental revenue relating to Matikwane, Mapulaneng and Tintswalo Hospitals, due to a lack of internal controls. The misstatement could not be quantified, due to a lack of supporting documentation.
- Included in receivables for departmental revenue was an amount of R20 432 000, of which the recovery was doubtful. Management did not write off irrecoverable patient fees. Receivables for departmental revenue were consequently overstated by this amount.

Commitments

- As indicated in my audit report for the previous financial year, I could not obtain sufficient appropriate audit evidence as to the completeness and accuracy of commitments at 31 March 2008. The matter that led to this limitation on the scope of the audit had not yet been resolved and no alternative audit procedures could be performed. Therefore, I could not obtain sufficient appropriate audit evidence as to the completeness and accuracy of commitments to the amount of R182 095 000 at 31 March 2009 and the corresponding amount of R29 442 000 at 31 March 2008, as disclosed in the financial statements.

Emphasis of matters

Amendment to the applicable basis of accounting

- The financial statements disclosed that the department had recognised certain immovable assets that might belong to the provincial Department of Public Works, due to the uncertainty regarding the legal title of the assets.

Unauthorised and irregular expenditure

- The department incurred the following:
 - Unauthorised expenditure of R5 300 000 as a result of overspending on programmes 2 and 3 by R3 883 000 and R1 417 000, respectively.
 - Irregular expenditure of R2 176 000 due to overspending the budget on employee costs.

Material underspending of the budget

- As disclosed in the appropriation statement, the department materially underspent its budget on provincial hospital services by R128 109 000.

Occupational-specific dispensation

- A contingent asset to the value of R50 543 000 was disclosed in the financial statements, reflecting overpayments made during the implementation of the occupational-specific dispensation for nurses.
- A contingent liability to the value of R3 016 000 was disclosed in the financial statements, reflecting underpayments of amounts due to employees as a result of the implementation of the occupational-specific dispensation for nurses.

Other matters

Non-compliance with applicable legislation

Division of Revenue Act

- There was no proof of submission of all monthly and quarterly reports for health professional training and development as well as comprehensive HIV/Aids and revitalisation grants as required by section 12(1).

PFMA and Treasury Regulations

- A code of conduct to be adhered to by all officials and other role players involved in supply chain management, as required by Treasury Regulation 16A.8.2, was not in place.
- The department did not always pay creditors within 30 days of receipt of an invoice, as required by Treasury Regulation 8.2.3. In addition, R220 342 000 of the amount disclosed as accruals had been outstanding for longer than 30 days.

Key governance responsibilities

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- Financial statements were subject to material amendments resulting from the audit.
- Key officials were not available throughout the audit process.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management and compliance with applicable laws and regulations.
- No risk management strategy was developed.
- Prior year external audit recommendations were not substantially addressed.

Report on performance information

Lack of effective, efficient and transparent systems and internal controls regarding performance management

- The accounting officer did not ensure that the department had and maintained an effective, efficient and transparent system and internal controls regarding performance management, which describe and represent how the department's processes of performance planning, monitoring, measurement,

review and reporting will be conducted, organised and managed, as required in terms of section 38(1)(a)(i) and (b) of the PFMA.

Lack of reporting on all predetermined objectives in the annual report

- The department did not report on all predetermined objectives as required by section 40(3)(a) of the PFMA.

7. LOCAL GOVERNMENT

Financially unqualified (with other matters)

Emphasis of matters

Unauthorised and irregular expenditure

- The department incurred the following:
 - Unauthorised expenditure of R8 607 000 as a result of overspending on programmes 2 and 4.
 - Irregular expenditure of R2 153 000 due to overspending the budget on employee costs.
- Restatement of corresponding figures
 - As disclosed in note 28 to the financial statements, the corresponding figures for the former Department of Local Government and Housing were restated as a result of the split of the entity into two departments, namely the Department of Local Government and the Department of Housing.

Other matters

Non-compliance with applicable legislation

PFMA and Treasury Regulations

- Payments due to creditors were not always made within 30 days from receipt of an invoice, as required by section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3.

Key governance responsibilities

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- Financial statements were subject to material amendments resulting from the audit.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management and compliance with applicable laws and regulations.
- A risk management strategy was not implemented.
- Powers and duties had not been assigned as set out in section 44 of the PFMA.

Report on performance information

Lack of effective, efficient and transparent systems and internal controls regarding performance management

- The accounting officer did not ensure that the department had and maintained an effective, efficient and transparent system and internal controls regarding performance management, which describe and represent how the institution's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed, as required in terms of section 38(1)(a)(i) and (b) of the PFMA.

Inconsistently reported performance information

- The department did not report on its performance with regard to its targets as per the approved annual performance plan.

Lack of source documentation

- The reported actual achievement of targets could not be substantiated by adequate evidence or source documentation.

Source information not accurate and complete

- The source information or evidence provided to support the reported performance information with regard to subprogramme objectives did not adequately support the accuracy and completeness of the facts.

8. OFFICE OF THE PREMIER

Unqualified (with other matters)

Emphasis of matters

Irregular expenditure

- Irregular expenditure to the amount of R1 474 000 was incurred, as a proper procurement process had not been followed.

Other matters

Non-compliance with applicable legislation

PFMA and Treasury Regulations

- Payments due to creditors were not always settled within 30 days from receipt of an invoice, as required in terms of section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3.

Report on performance information

Inconsistently reported information

- The department reported on objectives, indicators and targets in addition to those as per the approved annual performance plan.

Reported performance information not relevant

- Targets with regard to the subprogrammes: 2010 World Cup coordination (programme 1) and communication services (programme 2) were not measurable in identifying the required performance and time bound in specifying the time period, respectively.

Source information not accurate and complete

- The evidence provided to support the reported performance information with regard to the subprogrammes: office of the director-general, executive council secretariat, forensic audit and internal audit did not adequately support the accuracy and completeness of the facts.

9. PUBLIC WORKS

Financially unqualified (with other matters)

Emphasis of matters

Irregular expenditure

- The department incurred irregular expenditure to the amount of R9 919 000, as a result of the effect of the overspending on employee cost.

Other matters

Non-compliance with applicable legislation

PFMA and Treasury Regulations

- The department laid criminal charges against two suppliers during the financial year, but did not inform the National Treasury and the AG as required.
- The department did not make payments to the amount of R25 743 881 due to creditors within 30 days from receipt of an invoice, as required by section 38(1)(f) of the PFMA, read with Treasury Regulation 8.2.3.
- The department did not surrender voted surplus funds to the amount of R6 009 000, as required by Treasury Regulation 15.8.

Key governance responsibilities

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- The financial statements were subject to material amendments resulting from the audit.



- The department did not have an audit committee in operation throughout the financial year.
- Prior year audit findings were not substantially addressed.

Report on performance information

Non-compliance with regulatory requirements

- Lack of reporting on all predetermined objectives in annual report
 - The department did not report on all predetermined objectives, as required by section 40(3) (a) of the PFMA. An objective for the number of leases to client departments was set for the programme: public works (subprogramme: property management) in the strategic plan, but was not reported on in the annual report.

Source information not accurate and complete

- The source information or evidence provided to support the reported performance information with regard to the subprogramme: maintenance did not adequately support the accuracy and completeness of the facts. The database reflected 2 054 as the number of radio equipment serviced, while the number of radio equipment reported on was 1 820.

10. ROADS AND TRANSPORT

Financially unqualified (with other matters)

Emphasis of matters

Irregular expenditure

- Irregular expenditure to the amount of R15 596 000 was incurred, as the departmental budget allocation for the compensation of employees was overspent by this amount.

Other matters

Key governance responsibilities

- The financial statements were subject to material amendments resulting from the audit.

Report on performance information

- No significant findings were reported.

11. COMMUNITY SAFETY, SECURITY AND LIAISON

Unqualified (with other matters)

Other matters

Non-compliance with applicable legislation

PFMA and Treasury Regulations



- Payments due to creditors were not always settled within 30 days from receipt of an invoice, as required in terms of section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3.

Key governance responsibilities

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- The financial statements were subject to material amendments resulting from the audit.

Report on performance information

Reported performance information not relevant

- Targets with regard to three subprogrammes were not specific in clearly identifying the nature and the required level of performance or time bound in specifying the time period or deadline for delivery.

12. SOCIAL DEVELOPMENT

Qualified

Major capital assets

- The major capital assets disclosed in disclosure note 29 to the financial statements were based on the total in the asset register. However, the asset register was incomplete, as 68 out of 215 assets selected from the floor could not be traced to the asset register. Additions to major capital assets to the amount of R16 356 000, as disclosed in disclosure note 29 to the financial statements, did not agree to the asset register by R12 411 000 for movable assets. I could therefore not obtain sufficient appropriate audit evidence as to the completeness and valuation of the capital assets at year-end.
- I could not obtain sufficient appropriate audit evidence concerning the accuracy and completeness of the adjustments to the opening balance of major capital assets to the amount of R36 203 000, as presented in disclosure note 29 to the financial statements.

Emphasis of matters

Amendment to the applicable basis of accounting

- The financial statements disclosed that the department had recognised certain immovable assets that might belong to the provincial Department of Public Works, due to the uncertainty regarding the legal title of the assets.

Irregular expenditure

- The department incurred irregular expenditure to the amount of R5 797 000, due to the overspending on budgeted employee costs for employees' salary adjustments.

Fruitless and wasteful expenditure

- The department incurred fruitless and wasteful expenditure to the amount of R561 000, due to payments made for services not rendered.

Other matters

Non-compliance with applicable legislation

PFMA and Treasury Regulations

- Payments due to creditors were not always settled within 30 days from receipt of an invoice, as required in terms of section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3.

Key governance responsibilities

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- The financial statements were subject to material amendments resulting from the audit.

Report on performance information

Reported information not relevant

- Targets with regard to three subprogrammes were not specific in clearly identifying the nature and the required level of performance or time bound in specifying the time period or deadline for delivery.

13. HOUSING

Financially unqualified (with other matters)

Emphasis of matters

Material underspending of the budget

- As disclosed in the appropriation statement, the department materially underspent its budget on programme 2: housing needs, research and planning to the amount of R6 660 000, which represents 30,67% of the budgeted amount.

Restatement of corresponding figures

- As disclosed in note 25 to the financial statements, the corresponding figures for the former Department of Local Government and Housing were restated as a result of the split of the entity into two departments, namely the Department of Local Government and the Department of Housing.

Other matters

Non-compliance with applicable legislation

PFMA and Treasury Regulations

- Payments due to creditors were not always made within 30 days from receipt of an invoice, as required by section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3.

Key governance responsibilities

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- Financial statements were subject to material amendments resulting from the audit.

Report on performance information

Lack of effective, efficient and transparent systems and internal controls regarding performance management

- The accounting officer did not ensure that the department had and maintained an effective, efficient and transparent system and internal controls regarding performance management, which describe and represent how the institution's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed, as required in terms of section 38(1)(a)(i) and (b) of the PFMA.

ANNEXURE 4.3: AUDIT REPORT SUMMARIES (public entities)

1. MPUMALANGA AGRICULTURAL DEVELOPMENT CORPORATION

Financially unqualified (with other matters)

Emphasis of matters

Significant uncertainty

- The entity did not apply the conditions of the VAT Act when accounting for VAT on grants received from government and related expenses. Therefore, the ultimate tax claim in respect of interest and penalties by the South African Revenue Service in this regard was not yet known.
- As disclosed in the financial statements, the entity recognised land and buildings to the amount of R11 043 203 at year-end, in respect of which I was unable to confirm ownership. In addition, there was a land claim issue relating to some of these capital assets and it was not known whether the outcome would be against the entity or not.
- As disclosed in note 6 to the financial statements, the entity had business loans with a value of R147 538 938, of which more than half were inherited from predecessor corporations. A provision of R114 876 337 was provided for as non-recoverable. The procedures performed in respect of the remaining debtors highlighted significant uncertainty in respect of the recoverability of those amounts.

Other matters

Non-compliance with applicable legislation

PFMA and Treasury Regulations

- The entity did not report to the relevant treasury and the AG on the outcome of the disciplinary hearing against an official, as required by section 85(1)(a) and (e) of the PFMA, read with Treasury Regulation 4.3.4.
- Contrary to section 50(1)(a)(i) of the PFMA, the entity did not have guidelines for calculating the materiality figure in the materiality and significance framework.

Key governance responsibilities

- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- Prior year audit findings were not substantially implemented.

Report on performance information

Non-compliance with regulatory requirements

- Submission of shareholders' compact
 - The accounting authority of the entity did not, in consultation with its executive authority, conclude a shareholders' compact for the year under review, as required by Treasury Regulation 29.2.1.

- Lack of effective, efficient and transparent systems and internal controls regarding performance management
 - The accounting officer did not ensure that the department had and maintained an effective, efficient and transparent system and internal controls regarding performance management, which describe and represent how the institution's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed, as required in terms of section 38(1)(a)(i) and (b) of the PFMA.
- Inconsistently reported performance information
 - The entity reported on objectives, indicators and targets in addition to those as per the approved strategic plan. Furthermore, these additional objectives, indicators and targets were not included in the approved or adjusted budgets or were not approved subsequent to the strategic planning process.
- Reported performance information not relevant
 - Several targets with regard to the farmer development and loans subprogramme were not specific in clearly identifying the nature and the required level of performance, measurable in identifying the required performance, or time bound in specifying the time period or deadline for delivery.
- Lack of source documentation
 - Sufficient appropriate audit evidence in relation to the reported performance information of the business development programme could not be obtained, as the relevant source documentation could not be provided for audit purposes.

2. MPUMALANGA GAMBLING BOARD

Financially unqualified (with other matters)

Other matters

Key governance responsibilities

- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- The public entity did not have an internal audit function in operation throughout the financial year.

Report on performance information

No significant findings were reported.

3. MPUMALANGA ECONOMIC GROWTH AGENCY

Financially unqualified (with other matters)

Emphasis of matters

Fruitless and wasteful expenditure

- The entity incurred fruitless and wasteful expenditure to the amount of R2 008 687, as a result of interest on an overdue DBSA account and a VAT liability.

Other matters

Non-compliance with legislation

PFMA and Treasury Regulations

- The entity did not comply with Treasury Regulation 7.2.1, as 87% of total loans and receivables of R90 871 188 were long outstanding and had been provided for as impaired.

Key governance responsibilities

- The financial statements submitted for auditing were subject to material amendments resulting from the audit.

Report on performance information

Lack of effective, efficient and transparent systems and internal controls regarding performance management

- The accounting officer did not ensure that the department had and maintained an effective, efficient and transparent system and internal controls regarding performance management, which describe and represent how the institution's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed, as required in terms of section 38(1)(a)(i) and (b) of the PFMA.

Lack of reporting on all predetermined objectives in the annual report

- The entity did not report on all predetermined objectives as required by section 55(2)(a) of the PFMA.

Reported performance information not relevant

- Targets with regard to the subprogrammes: legal services, research as well as property management and development were not specific in clearly identifying the nature and the required level of performance or time bound in specifying the time period or deadline for delivery.

4. MPUMALANGA REGIONAL TRAINING TRUS

Financially unqualified (with other matters)

Emphasis of matters

Significant uncertainty regarding the registration of land and buildings

- Note 3.1 to the financial statements stated that the following land and buildings to the value of R38 593 392 had not yet been registered in the name of the company:
 - Farm Nyamassan 137 JU
 - Erf 1603, Kabokweni (registered as erf 1458)
 - Erven 61, 62 and 63, Ekandustria
 - Siyabuswa, industrial area factory 10/2

Other matters

Key governance responsibilities

- The financial statements submitted for auditing were subject to material amendments resulting from the audit.

Report on performance information

Lack of effective, efficient and transparent systems and internal controls regarding performance management

- The accounting officer did not ensure that the department had and maintained an effective, efficient and transparent system and internal controls regarding performance management, which describe and represent how the institution's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed, as required in terms of section 38(1)(a)(i) and (b) of the PFMA.

Reported performance information not relevant

- Targets with regard to the objective: alignment of the training programmes and workshops in terms of the relevant SETA's requirements were not specific in clearly identifying the nature and the required level of performance or time bound in specifying the time period or deadline for delivery.

Inconsistently reported performance information

- The entity did not report on its performance with regard to objectives and related targets as per the approved annual performance plan in the following instances:
 - Provide accredited scarce and critical skills – technical, hospitality and tourism
 - Entrepreneurial programme

5. MPUMALANGA HOUSING FINANCE COMPANY

Financially unqualified (with other matters)

Emphasis of matters

Significant uncertainty

- Disclosed in note 20 to the financial statements was a contingent asset relating to a VAT claim of R10 204 544 against the South African Revenue Service by the entity, as a result of tax input pertaining to the costs of the development section up to 31 March 2009. The ultimate outcome of the matter could not be determined and no provision for any asset that may result had been made in the financial statements.

Irregular expenditure

- The entity incurred irregular expenditure to the amount of R1 305 356, as a proper tender process had not been followed.

Other matters

Non-compliance with applicable legislation

PFMA and Treasury Regulations

- The accounting authority did not establish a separate supply chain management unit to implement the entity's supply chain management system, as required by Treasury Regulation 16A.4.1.
- The accounting authority did not ensure that officials implementing the company's supply chain management system were trained, as required by Treasury Regulation 16A.5.

Key governance responsibilities

- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- Significant difficulties were experienced during the audit concerning delays or the unavailability of required information as well as the unavailability of senior management.

Report on performance information

Lack of reporting on all predetermined objectives in the annual report

- The entity did not report its performance against predetermined objectives for all of its programmes, as required by section 55(2)(a) of the PFMA.

Reported performance information not relevant

- Not all targets were specific in clearly identifying the nature and the required level of performance or time bound in specifying the time period or deadline for delivery; such as TBD under the subprogramme: suitable land availability.

6. MPUMALANGA TOURISM AND PARKS AGENCY

Financially unqualified (with other matters)

Other matters

Key governance responsibilities

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- Key officials were not available throughout the audit process.

Report on performance information

No significant findings were reported.

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